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UNITED STATES DEPARTMENT OF AGRICULTURE  
BUREAU OF AGRICULTURAL ECONOMICS

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THE TOBACCO MARKET IN THE BRITISH ISLES

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# THE TOBACCO MARKET IN THE BRITISH ISLES

## Tobacco in the British Empire as a Whole

Nearly 85 percent of the tobacco consumed in the British Empire is produced within its domains. There are practically no British countries that do not grow some tobacco. The total production in the Empire is approximately the same as that in the United States. India alone produces and uses domestically well over 1,000 million pounds annually, although much of this is of native **dark** types not suitable for export. The total consumption of leaf in the British Empire is estimated to be about 1,700 million pounds annually. Nearly 1,500 million pounds are grown domestically, 345 million are imported, and 97 million are exported annually by British countries.

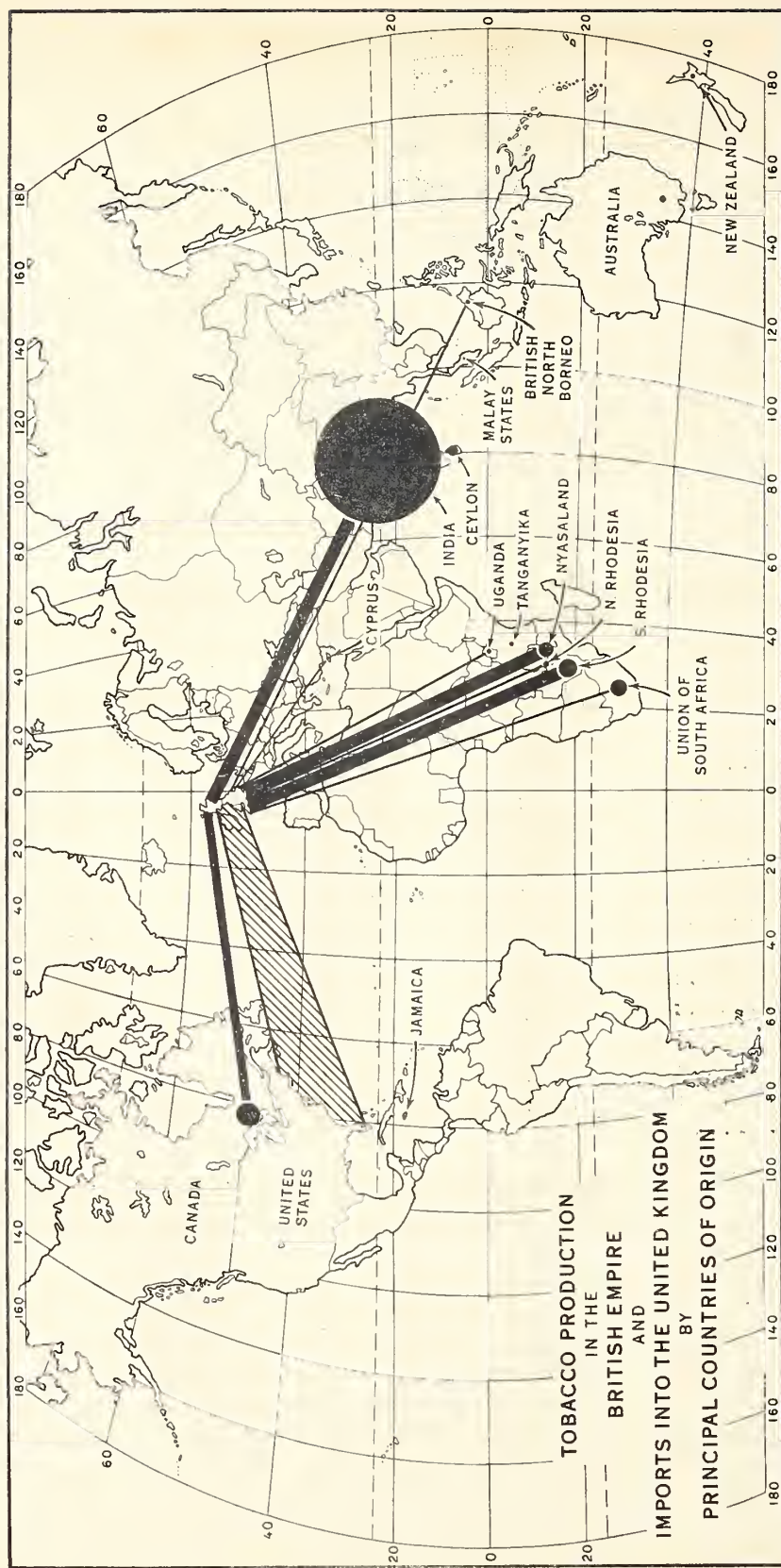
Table 1. British Empire tobacco production and trade,  
estimated 1936 level

(Redried weight, unstemmed-leaf equivalent)

Empire countries	Domestic:	Domestic:	Imports :	Exports	
	require-	produc-	Imports :	Total	To United
	ments	tion	:	:	Kingdom
	Million	Million	Million	Million	Million
	pounds	pounds	pounds	pounds	pounds
United Kingdom <u>a/</u> .....	243	b/	285	c/ 12	0
Irish Free State.....	10	b/	11	b/	b/
India.....	1,324	1,350	10	36	18
Canada <u>a/</u> .....	41	46	3	10	10
Southern Rhodesia.....	1	20	b/	19	15
Nyasaland.....	1	15	b/	14	14
Northern Rhodesia.....	1	2	b/	1	b/
Union of South Africa..	22	20	2	b/	b/
Australia.....	24	4	20	b/	b/
New Zealand.....	4	2	2	b/	b/
Ceylon.....	12	13	1	2	b/
Others.....	17	8	11	2	1
Total <u>a/</u> .....	1,700	1,480	345	97	59

a/ Net supply fails to balance with domestic requirements because of change in stocks. b/ One-half million pounds or less. c/ Reexports.

Many types of tobacco are grown in the Empire, but some are of qualities not suitable for the English market. Several of the principal producing countries, such as India and the Union of South Africa, have relatively small exports compared with their production. Since trade relations play a paramount part in holding the Empire together, the colonies and Dominions, largely through preferential treatment, endeavor to increase their tobacco exports to the United Kingdom in return for imports of industrial products. (See also page 18.)



TOBACCO PRODUCTION  
IN THE  
BRITISH EMPIRE  
AND  
IMPORTS INTO THE UNITED KINGDOM  
BY  
PRINCIPAL COUNTRIES OF ORIGIN

FIGURE 1



Exports from Empire countries amount to only about 6 percent of the total production. Of these exports about three-fourths are to other Empire countries, largely to the United Kingdom. Only about 23 million pounds, or one-fourth of the exports, are to foreign countries. India exports largely to the United Kingdom and sends smaller quantities to the neighboring Empire states of Aden, the Straits Settlements and the Malay States, and a small quantity to Japan. Seventy-five percent of Southern Rhodesia's exports are to the United Kingdom, from 10 to 15 percent to the neighboring Union of South Africa, and about 10 percent to foreign countries. Nyasaland exports almost entirely to the United Kingdom, and Canada about 90 percent to the United Kingdom with most of the remainder to British West Africa.

Of the imports by Empire countries, totaling 345 million pounds, it is estimated that other Empire countries supply about 20 percent and the United States about 75 percent. Over three-fourths of the United Kingdom requirements and nearly all of the imports into the Irish Free State, Australia, Canada, and New Zealand are obtained from the United States. Australia imports annually about 20 million pounds of United States leaf, thus ranking second among the Empire markets. In Canada, the increased use of domestic leaf has reduced the imports from the United States to about 3 million pounds annually.

#### The United Kingdom

The United Kingdom imports more tobacco than any other country in the world. A small part, about 5 percent, of this great import supply is reexported through trade routes that have existed for years, but the bulk of it is consumed in United Kingdom factories. A variety of products is manufactured, about seven-eighths for home consumption and one-eighth for export. Despite the popularity of pipe tobacco in the United Kingdom - dating from pre-war days - the English are a nation of cigarette smokers. Their per-capita consumption of cigarettes is almost equal to that of the United States, and their total per-capita consumption of tobacco is among the highest of European countries. With almost no domestic crop, practically the entire supply of raw tobacco must be imported either from countries in the Empire or from foreign countries.

The United States exports more tobacco than any other country in the world. To tobacco growers in the United States, the British market is second in importance only to the home market. During 1935 and 1936, about one-sixth of the United States tobacco production, one-half of the total tobacco exports, and two-thirds of the tobacco exports to Europe were sold to the United Kingdom. Flue-cured tobacco growers send to that country one out of every 3 or 4 pounds of their crop. Moreover, since the British demand is for good-quality leaf, the market is on a high plane from the standpoint of value, purchases for the past 2 years having been valued by United States exporters at almost \$100,000,000 annually.

The demand in the United Kingdom since the war has been primarily for light-colored Virginia cigarettes made exclusively from flue-cured

tobacco. The taste for these cigarettes has become more and more prevalent. At the present time, about 75 percent of the total tobacco consumption in the United Kingdom is in the form of cigarettes, and over 99 percent of the cigarettes are made exclusively from flue-cured tobacco.

The tobacco trade between the United States and the United Kingdom developed from colonial days. From 1910 to 1919, the United Kingdom obtained about 90 percent of its tobacco supply from the United States. Since then, through the development of Imperial commercial policy involving preferential treatment for imports from British countries, increased quantities, especially of leaf for use in pipe tobacco, have been obtained from countries within the British Empire. The United States now supplies only about 79 percent of total leaf imports. This preference, amounting to about 50 cents per pound on Empire leaf or from more than one to two times as much as the value of the tobacco, is by far the most important factor determining the competition between United States and Empire leaf in the United Kingdom.

In other words, the United Kingdom obtains about four-fifths of its tobacco supply from the United States, especially of the leaf used in cigarettes. Within the Empire the principal sources of supply for flue-cured tobacco are Southern Rhodesia, India, and Canada, and for dark tobacco Nyasaland and India. Foreign countries, other than the United States, supply less than 2 percent of the total.

#### Consumption

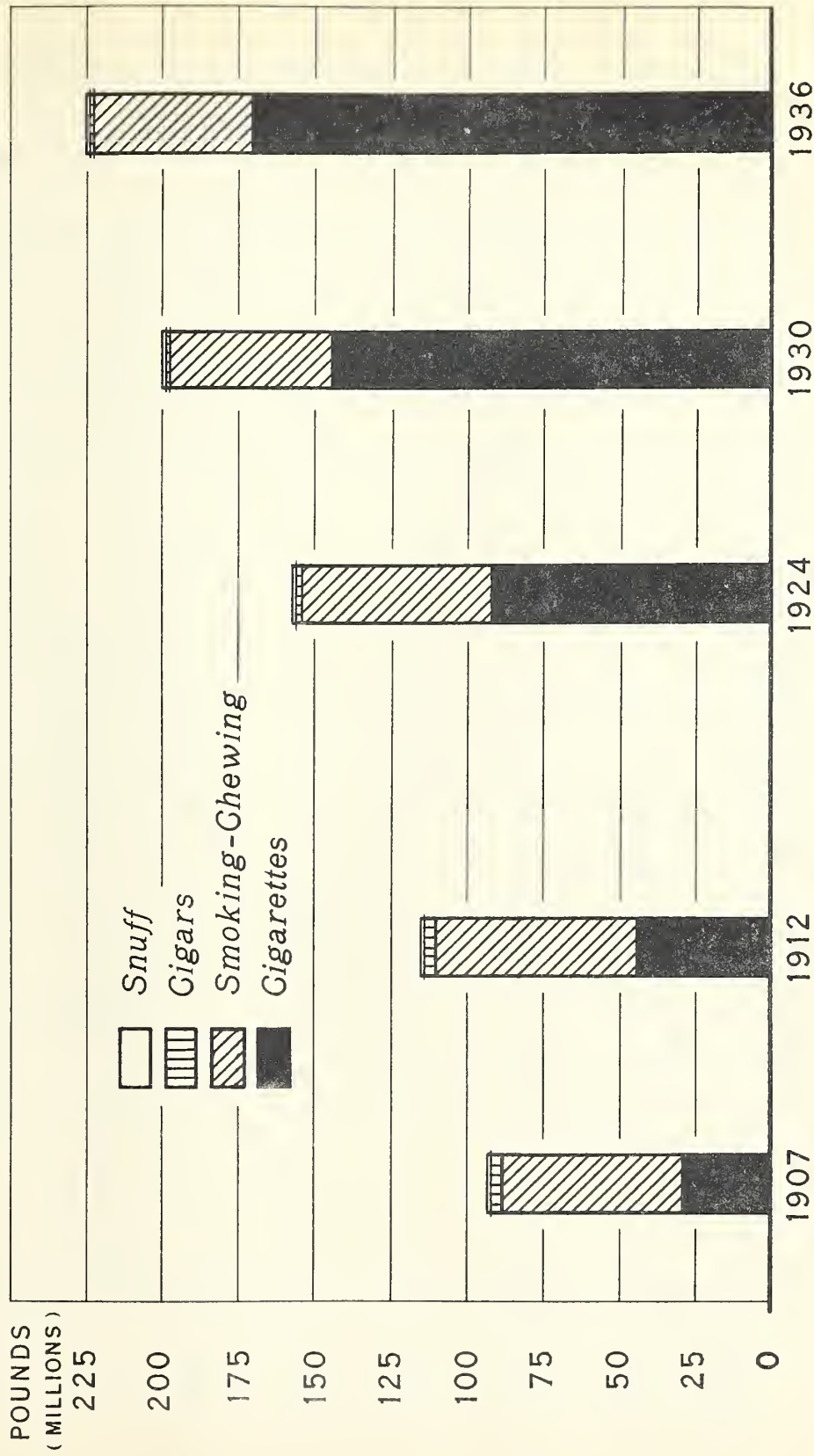
The per-capita consumption of tobacco products in the United Kingdom is equivalent to about 4.5 pounds of leaf annually. This is about the fourth highest rate of per-capita consumption among European countries, although materially lower than the rate in the United States.

About three-fourths of the leaf consumed in the United Kingdom is used in the manufacture of cigarettes. The per-capita consumption of cigarettes, by weight, is the highest in Europe but is somewhat less than that of the United States. Since a considerable portion of the English cigarettes are of smaller size, the number consumed per capita in the United Kingdom is estimated to be about equal to that in the United States.

With the exception of temporary recessions during the depression years, consumption in the United Kingdom has been increasing steadily. See table 2. Before the war, the actual net duty-paid quantity retained for domestic consumption (mostly strips after deducting the quantity on which duty was refunded on exports and stems) was less than 100 million pounds annually. Immediately after the war, this quantity rose to 138 million pounds. In 1923, during the first depression following the war, it dropped to 128 million pounds and later rose to 151 million pounds. During the recent depression, it declined to 149 million pounds in 1933. Since that time the trend has been steadily upward at an average increase of nearly 6 percent a year, 175 million pounds having been consumed in 1936 and 185 million estimated for 1937. See figures 2 and 3.



# TOBACCO PRODUCTS MANUFACTURED IN GREAT BRITAIN, IN CENSUS YEARS 1907 TO 1930, AND ESTIMATE FOR 1936



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FIGURE 2

# IMPORTS AND CONSUMPTION OF UNMANUFACTURED TOBACCO IN THE UNITED KINGDOM, STOCKS, AND RATIO OF STOCKS TO CONSUMPTION, 1910-36

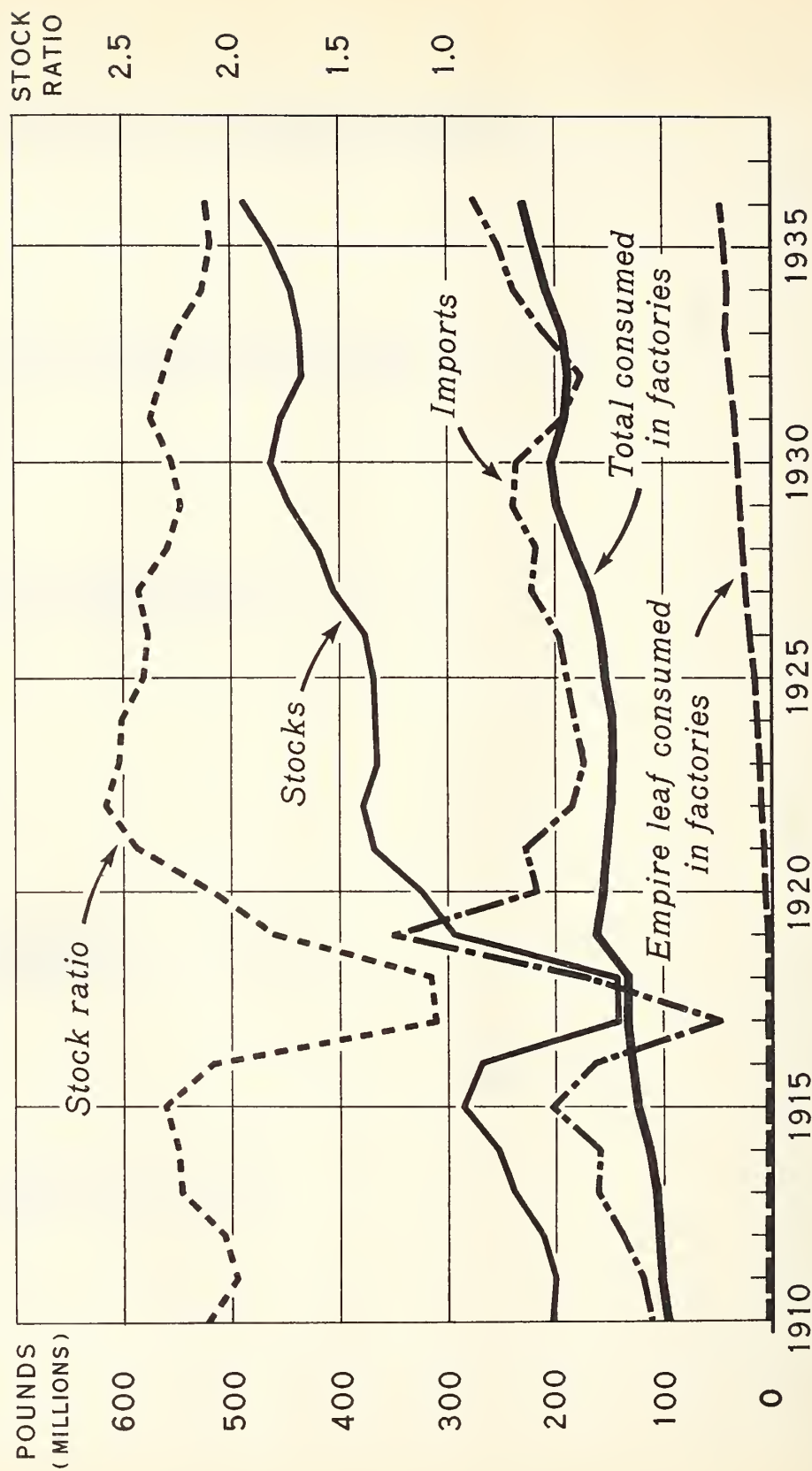


FIGURE 3

Consumption largely cigarettes: Practically all of the increase in consumption since the war has been in cigarettes. All other products have declined, except snuff, which constitutes less than 1 percent of the total. Before the war, cigarettes made up less than one-third of the total consumption; immediately after the war, one-half; and in 1936, three-fourths of the total. During 1936, however, there appears to have been some revival in the consumption of pipe mixture and cigars.

Table 2. Tobacco products manufactured in the United Kingdom, 1935 with comparisons

Year	Cigarettes	Cigars	Snuff	Smoking and: chewing	Total
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
1907 a/.....	29.6	3.7	1.2	62.1	96.6
1912 b/.....	43.8	3.1	0.7	57.9	105.5
1924 b/.....	92.1	1.4	0.5	55.5	149.5
1930 b/.....	143.5	1.2	0.8	46.6	192.1
1930 c/.....	145.1	1.2	1.0	52.4	199.7
1935 c/.....	148.0	1.1	0.9	d/ 51.3	201.3
:	:	:	:	:	:

Census of Production.

a/ Covers Great Britain and all Ireland. b/ Covers Great Britain only. c/ Covers Great Britain and Northern Ireland (preliminary data). The increase in total consumption from 1930 to 1935 is not fully reflected by the Census data. Although the total quantity of products here reported as manufactured in 1935 was only 1.6 million greater than in 1930, the quantity of tobacco withdrawn from bond for manufacture was actually 16.1 million greater in 1935 than in 1930. d/ Includes increased quantities for export as cut tobacco.

Cigarettes are Virginia type. Not only has the total consumption of cigarettes increased materially while the consumption of other products has declined, but a change in the type of cigarettes has also taken place. Before the war, especially in the more expensive brands, there was a considerable demand for Turkish and Egyptian cigarettes made largely of oriental-type tobacco. Now, however, cigarettes are practically all made exclusively of so-called Virginia or flue-cured tobacco. It is estimated that oriental-type cigarettes now make up less than 1 percent of the total.

Although concerted efforts have been made to introduce blended cigarettes, similar to those in the United States, containing mixtures of flue-cured, Burley, and oriental leaf, such attempts have failed, the flavor being too strong and the color too dark for the English taste. It is difficult to explain satisfactorily the British partiality to exclusively flue-cured cigarettes, but the preference for this type is so predominant that only through a marked change of taste will there be a demand for other types of leaf in cigarettes.

For use in cigarettes the leaf must be light in color, have a clear, sharp, flue-cured flavor, be of suitable body for fine cutting,



- 3 -

and have a satisfactory burn. In the absence of blending with stronger-flavored types, any off-flavor or tang of poor-quality leaf is more readily detected than it is in blended products, especially in those which contain stronger-flavored dark tobaccos.

Cigarettes are most commonly sold at retail in cardboard packages containing 10 or 20 cigarettes. Because the Government revenue is collected as a duty on the imported leaf, there is no stamp or banderole excise tax on any of the products. Consequently, the size of packages varies widely, from those containing 5, 8, 10, 12, 15, 20, 25, 30, and 32 to those of 50, 60, and 100. Some cigarettes, also, are sold by weight.

Most of the widely advertised brands of full-sized cigarettes sell at 1s.0d. (24.7 cents) per package of 20, or 6d. (12.4 cents) per package of 10. Numerous special brands sell at higher prices. On the other hand, nearly one-half of the total sales are of the cheaper so-called 4-penny brands (4d. per package of 10). Most of these 4-penny brands are materially smaller cigarettes, contain less tobacco, and therefore can be sold cheaper. Such small cigarettes are usually both smaller in diameter and slightly shorter, having an average weight of about 2.1 pounds per 1,000, compared with about 2.7 or 2.8 pounds per 1,000 for the full-sized brands.

The proportion of small-sized 4-penny brands, although nearly half of the total, has not increased appreciably during the past 2 years. The greatest increase in these small cigarettes occurred during the depression, and it is probable that a further increase may take place if industrial conditions again become unfavorable. Many smokers consider that, since they smoke only a certain number of cigarettes per day, the slightly more rapid burn and smaller volume of smoke from small-sized cigarettes is hardly noticeable. An increase in the proportion of small cigarettes tends to decrease the total quantity of cigarette leaf required.

Some other 4-penny brands of cigarettes are full-sized and are offered at the reduced prices largely through the use of Empire-grown flue-cured tobacco available at a 2s.0.5d.-per-pound lower import duty. The preference amounts to about 5 shillings (\$1.24) per 1,000 cigarettes or 2/3d. per package of 10. Although several 4-penny and 6-penny brands of cigarettes containing Empire tobacco have been on the market for some time, the consumption of Empire leaf in cigarettes declined slightly from 1933 to 1935. During 1936 and 1937, two new 4-penny brands of approximately full-sized cigarettes containing high proportions of Empire tobacco have been introduced. These new brands have been largely responsible for the increase in the proportion of Empire tobacco used in 1936 and 1937.

Smoking and chewing tobaccos. In spite of the popularity of pipe smoking in England, the consumption of smoking mixtures, as well as of chewing tobacco, has declined continuously since the beginning of the century. The 1907 census of British manufactures indicates that about 62 million pounds, or nearly two-thirds of all the tobacco manufactured, was in such forms as smoking mixtures, flake, shag, plug, roll,

twist, Cavendish, and Negrohead, all of which may be used for pipe smoking and some of which, roll and twist, are suitable for chewing as well. These products, taken together, accounted for nearly two-thirds of the total manufactured in 1907, one-half in 1912, one-third in 1924, and only about one-fourth of the total in 1935.

There are no published data relative to the consumption of chewing tobacco alone, since the same products may be used for chewing as, when sliced and rubbed, for pipe tobacco. The total consumption of chewing tobacco is estimated to be relatively small.

The English taste in pipe tobacco is distinctly different from that in the United States, where Burley tobacco figures so prominently in pipe mixtures and where flavoring materials may be added. The English smoker does not favor the taste of Burley, and English law prohibits the addition of flavoring materials except in that small quantity of products which is manufactured in bonded warehouses under strict Customs supervision. Consequently, the typical English mixtures rely largely upon darker grades of flue-cured leaf as a base, with the addition of fire-cured and possibly dark air-cured, Latakia, and Perique to add the desired flavor. Considerable proportions of stems and small quantities of Canadian Burley and of oriental-type leaf are also used in some pipe products.

About 80 percent of the tobacco used in smoking and chewing mixtures is Empire-grown and 20 percent, United States types. The requirements of aroma and flavor for flue-cured tobacco used in these products are not as strict as the requirements for cigarettes because the flavor of the stronger dark tobacco predominates and tends to cover up the finer variations in flavor of poor quality flue-cured leaf.

Although some increase in the consumption of pipe mixtures has been noted recently, it does not appear likely that the consumption of smoking mixtures or chewing tobacco will be materially increased in the near future. Moreover, there has been a shift toward increased proportions of the lighter kinds of leaf in these products. The dark types that formerly made up far the greater part of these products now make up only about one-half of the total. Western fire-cured, Green River, and Virginia fire-cured, formerly used to a large extent in the manufacture of dark shags and twists both for chewing and pipes, have declined sharply.

Because of the relatively high import duty of 9s.6d. per pound of leaf tobacco, the retail prices of pipe products are high, varying from about 8d. to 1s.6d. per ounce. Most pipe tobacco is sold in one ounce tins, in cardboard or paper packages, or in bulk to be put direct into the smoker's pouch. As a rule, only the higher-priced brands contain American tobacco. It is interesting to note that the moisture content of some of the products approaches the legal limit of 32 percent.

Since 1932, the exports of cut tobacco have increased materially from less than 1 million pounds to between 6 and 7 million pounds



annually. This increase is largely in fine-cut tobacco exported for the manufacture of cigarettes abroad. Because of this increase in exports, the British manufacture of "other tobacco" during the past 4 years has been maintained at a somewhat higher level than is consistent with domestic consumption.

Cigar consumption very small. At least since the beginning of this century, cigars have not been important in the United Kingdom. Consumption has decreased continually since before the war and now amounts to only about 1 million pounds annually, making up less than 1 percent of the total. One of the principal reasons for the small and declining cigar consumption is probably the fact that the tax is levied as an import duty on the weight of tobacco, thus falling most heavily on cigars. Cigars weighing six times as much as cigarettes are taxed six times as heavily, with the result that the retail cigar prices are materially higher than in most other countries and too expensive for a large proportion of the smoking public. Prices vary from 4d. to 2s.0d. each, probably averaging about 1ld. each. During the past 10 years the consumption of cigars is estimated to have decreased about one-half.

Although there may be some revival in cigar smoking, consumption will continue to be very small and of no importance to United States producers. Sumatra and Borneo leaf is used to a large extent in the manufacture of cigars, and a considerable proportion of the total consumption is represented by manufactured cigars imported from Cuba.

Snuff unimportant. Snuff is the least important of all tobacco products in the United Kingdom; the consumption is estimated at about 0.8 million pounds. From its paramount position during previous centuries, the consumption of snuff declined continually until about 1925. Since that time it has gained somewhat in popularity, especially in the northern areas and in those industries, such as mining and spinning, where smoking constitutes a fire hazard. Snuff consumption may be expected to be maintained or increased slightly, but it will not constitute an important part of the total market. Only the cheaper grades of leaf and stems and offal shorts of the dark tobacco are used in the manufacture of snuff. Very little leaf is imported as such specifically for the manufacture of snuff. In most of England and Scotland, wet snuff is most common; dry snuff is used to some extent in Northern Ireland.

#### Leaf requirements

At the 1936 rate of consumption and export, the United Kingdom required the equivalent of about 255 million pounds of unstemmed leaf tobacco annually (redried weight). See table 3. Of this, about 12 million pounds, or 5 percent, were reexported as unmanufactured tobacco, leaving 243 million required for manufacture in the United Kingdom. Manufacturers required about 207 million pounds for products for domestic consumption and about 36 million for the manufacture of products for export, mostly cigarettes and cut tobacco. Although imports in 1936 were the equivalent of about 286 million pounds of unstemmed leaf, about 31 million pounds were used to build up stocks during the year.

Practically the entire consumption requirements are manufactured domestically, only about 1 to 1.5 million pounds of manufactured products being imported.

Table 3. Approximate leaf requirements in the United Kingdom at the 1936 rate of consumption

Utilization	: Weight of stemmed : Unstemmed leaf : and unstemmed leaf: equivalent a/ : Million pounds : Million pounds	
Manufacture of products for domestic consumption.....	196	207
Manufacture of products for export:	34	36
Total required for manufacture...b/	230	243
Reexported unmanufactured.....	12	12
Total requirements.....	242	255

a/ One pound of stemmed leaf equivalent to 1.23 pounds unstemmed leaf.

b/ Withdrawals from bond for home consumption (manufacture) as reported in "Trade and Navigation Accounts."

Changes in the moisture content and the removal of stems and waste are the two most important factors affecting the weight of manufactured products obtained from leaf tobacco in the United Kingdom. The addition of substances other than water and essential oil is prohibited by law.

Increase in weight through moisture. Leaf imported into the United Kingdom usually contains from 11 to 13 percent moisture. Leaf with less than 10 percent moisture is subject to a materially higher rate of duty; on the other hand, excessive moisture unnecessarily increases the weight upon which the duty must be paid. For products exported and for stems and waste not used in manufacture, the full rate of duty is refunded on a 14-percent moisture basis, thus providing for a slight increase in weight. Furthermore, a maximum moisture content of 32 percent is permitted in manufactured products. Although cigarettes probably contain only about 14 percent, some of the cheaper grades of the hard products, such as plug, flake, and twist, contain between 20 and 30 percent moisture.

Loss in weight through removal of stems. Stemming losses vary from 22 percent for flue-cured tobacco to nearly 30 percent for some minor types, such as the narrow-leaved dark Indian. The average loss for all types in the United Kingdom is estimated to be 23 percent.

Approximately four-fifths of the tobacco imported into the United Kingdom is received as unstemmed leaf. In 1936, the quantity of unstemmed leaf withdrawn from bond for manufacture amounted to 186.3 million pounds. Of this, probably 1.5 million pounds were oriental and Latakia, from which the stems are not removed for manufacture, leaving about 184.8 million pounds from which the stems are normally removed for manufacture. With an average loss of 23 percent, it may be assumed that about 42.5 million pounds of stems are to be accounted for.

The full duty is refunded in the form of a drawback on all products exported, denatured, or abandoned. In this classification, about 1 million pounds of stems, snuff offal, and shorts or smalls are exported; 8.5 million pounds are deposited with Customs and abandoned; and about 18 million pounds, also deposited with Customs, are not abandoned but are denatured and otherwise prepared for use in byproducts. This 18 million pounds constitute practically the entire supply of raw material available to the nicotine and other byproducts manufacturers in the United Kingdom. Practically no stems are imported as such.

The total quantity of stems thus accounted for is about 27.5 million pounds. Of the 42.5 million pounds estimated as available, 15 million pounds remain for use in manufactured products in the United Kingdom. It is estimated that about 0.5 million pounds are used in the manufacture of snuff and 14.5 million in other products. Most of the stems are removed in the manufacture of cigarettes, but some are retained and rolled for use with strips in the 4-penny brands. In products used for chewing, the stems are entirely removed; but in pipe tobacco a considerable proportion of the stems is retained. Some pipe tobacco, known as birdseye, clearly shows the cross section of the stems.

In the manufacture of pipe tobacco, it is estimated that the increase in moisture content approximately offsets the loss in weight through the removal of stems. In the manufacture of cigarettes, where most of the stems are removed and little moisture is added, the loss in weight may approximate 20 percent.

Leaf requirements by types. To meet the leaf requirements of the cigarette industry in the United Kingdom, at the 1936 rate of consumption and export, it is estimated that manufacturers need about 188 million pounds annually (unstemmed equivalent) of the better quality, clear, sharp-flavored, flue-cured leaf and a few hundred thousand pounds of oriental leaf. For the manufacture of pipe and chewing tobacco products, about 54 million pounds of leaf are required, subdivided approximately as follows: 24 million pounds of flue-cured leaf, which may be of the darker grades and of less exacting aroma and flavor characteristics; 26 million pounds of the various types and qualities of dark leaf; 2 million pounds of Burley, primarily from Canada; and 2 million pounds of oriental types, Latakia, and a little Perique. For the manufacture of cigars the requirement is a little over a million pounds, largely East Indian leaf.

The total requirements for 1936 were 243 million pounds, unstemmed basis, classified by types about as follows: 211.5 million pounds of flue-cured; 26 million pounds of dark types (two-thirds fire-cured and one-third dark air-cured); 2 million pounds of Burley; and 3.5 million pounds of minor types.

Organization of the industry. The organization of the British tobacco-manufacturing industry has considerable bearing upon the manner in which tobacco is handled and the stability of the market. The present organization of the manufacturing industry was influenced to a large degree by the combination of 13 principal British manufacturers



to form the Imperial Tobacco Company in 1901, capitalized at £15,000,000 sterling. This combination was brought about in order better to meet the sharp competition from American interests in the cigarette field. Finally, the British and American interests combined to form a second company, the British American Tobacco Company. The former company manufactures for consumption in the British Isles, while the latter manufactures exclusively for export and in foreign countries. It is estimated that the former now manufactures roughly three-fourths of the products consumed in the British Isles. In addition, there are many smaller independent manufacturers, the total number of manufacturing licenses issued for the year 1935-36 being 185 in England and Wales, 16 in Scotland, and 5 in Northern Ireland. 1/

The industry is characterized by the large number of brands manufactured in the United Kingdom. Including imported products, about 1,500 brands are listed and offered for sale. In addition, most products are available in packages of several sizes. There are over 500,000 licensed retail dealers in tobacco products in Great Britain - in other words, one retailer for every 87 people. Ordinances requiring the closing of tobacco shops at specified times in the evening have led to a wide use of cigarette vending and slot machines.

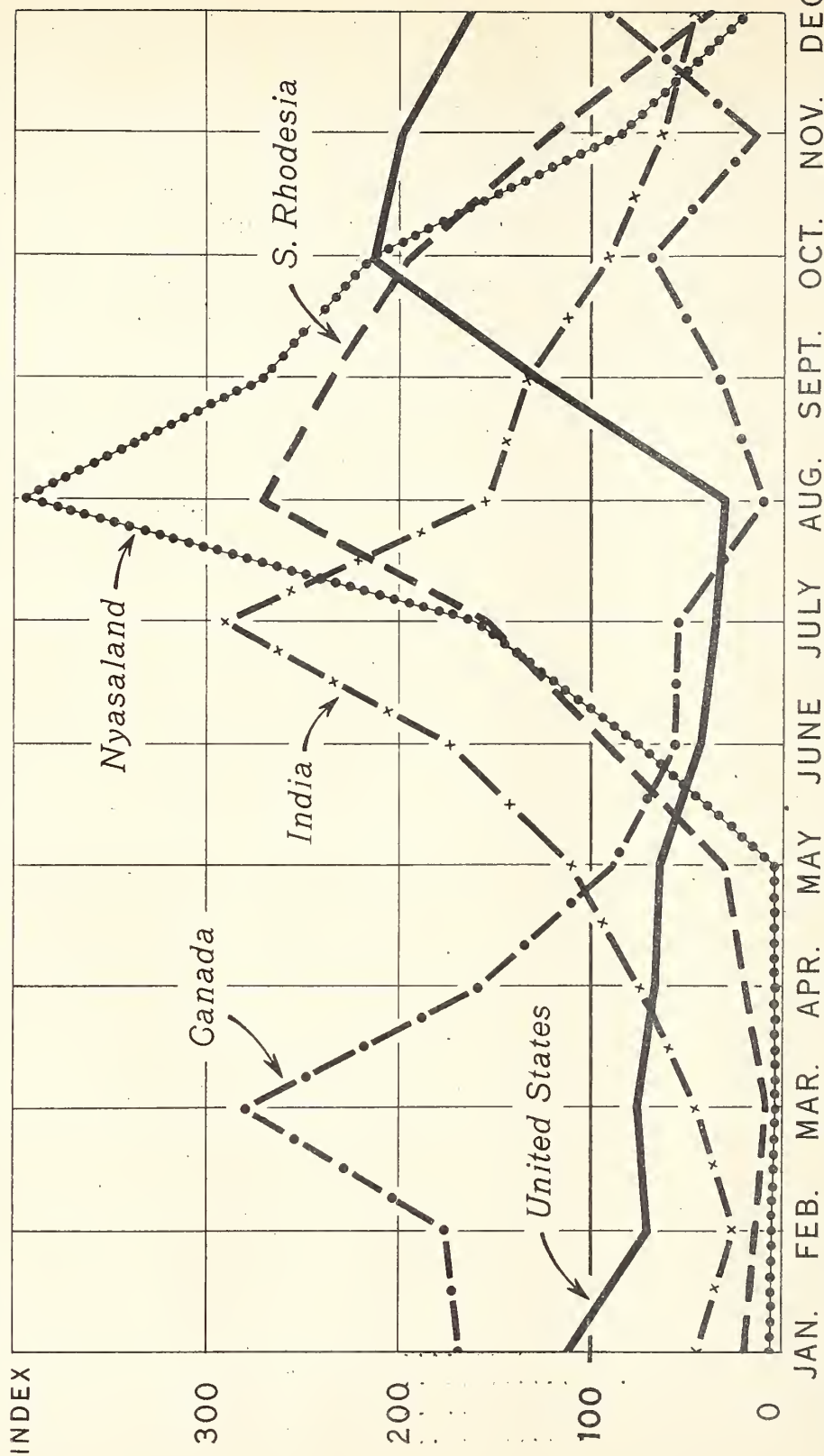
Large manufacturers purchase direct. The five largest manufacturers in the United Kingdom purchase nearly all of their United States leaf requirements through their own buying organizations in the United States and rely on dealers in their own country only for smaller supplementary purchases. Smaller manufacturers purchase principally through the 42 independent import leaf dealers in the United Kingdom.

Although most of the tobacco is imported as unstemmed leaf, there continues to be considerable demand for strips, especially from smaller manufacturers who find it more economical to purchase strips than to conduct their own stemming operations. It therefore appears desirable that a certain proportion of United States strips each year be supplied, since, if some small manufacturers cannot obtain them from one country, they will buy from a competing source. The cost of labor for stemming, the cost of transportation, and the use that is to be made of the tobacco are additional factors determining the proportion of strips.

Most of the tobacco from India arrives as strips, whereas unstemmed leaf predominates in shipments from the United States, Canada, and Southern Rhodesia. During the period 1932-1936, the proportion of strips in imports from the United States was somewhat smaller than formerly. The following shows the average percentage of strips in imports from each of the countries during the period 1932 to 1936:

United States.....	13	percent	strips
Canada.....	9	"	"
Southern Rhodesia.....	10	"	"
Eyasaland.....	23	"	"
India.....	84	"	"
Average, 5 countries	17	"	"

# SEASONAL VARIATION IN IMPORTS INTO THE UNITED KINGDOM, BY PRINCIPAL COUNTRIES, AVERAGE 1932-36



U. S. DEPARTMENT OF AGRICULTURE

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FIGURE 4



UNITED KINGDOM: TOBACCO STOCKS, QUANTITIES CONSUMED IN  
 FACTORIES, AND IMPORTS FROM FOREIGN AND BRITISH  
 EMPIRE COUNTRIES, MONTHLY AVERAGE, 1932-36

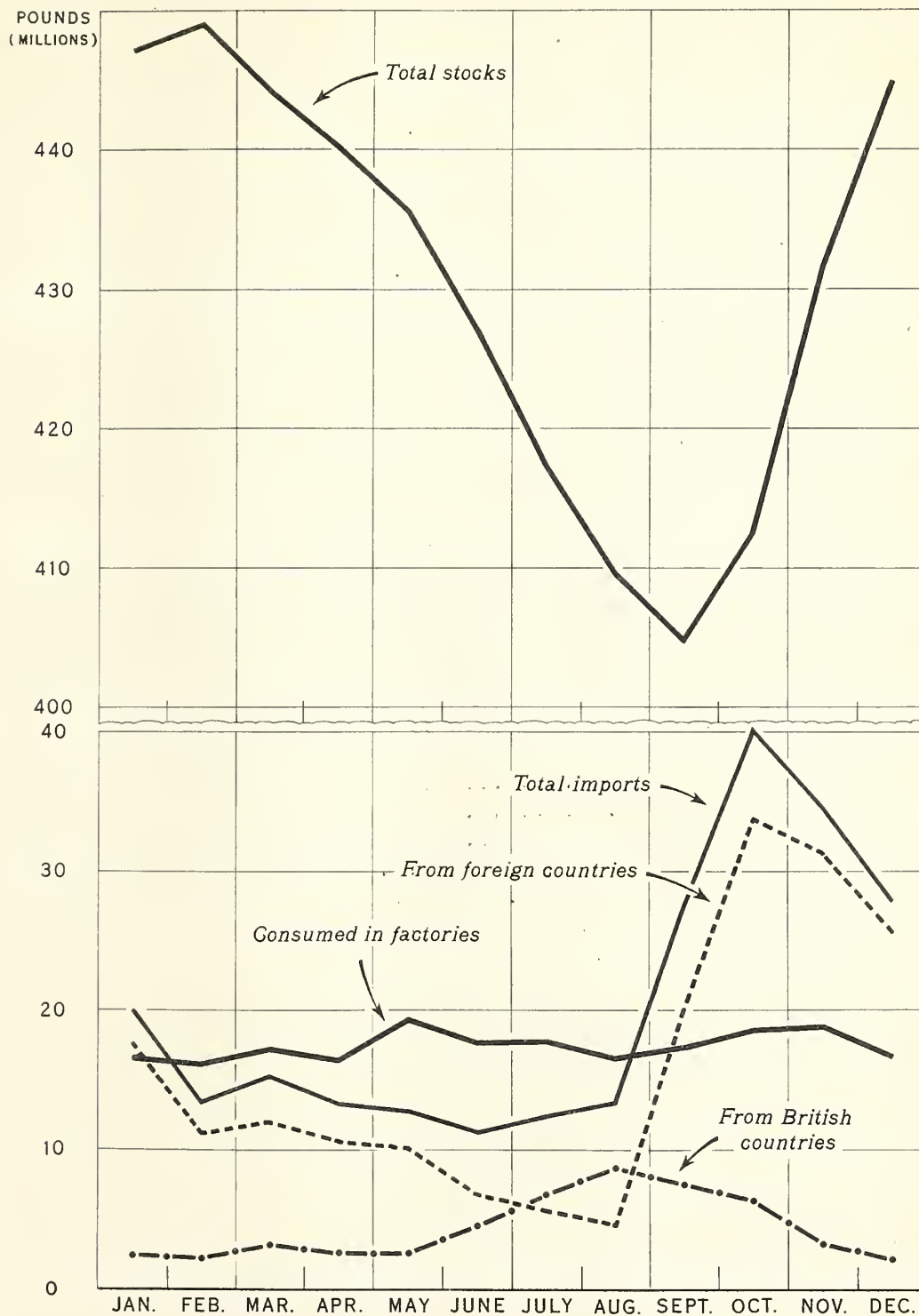


FIGURE 5

Shipped soon after harvest. The general practice, with some exceptions, is to ship each crop as soon as possible after harvest and marketing. Certain dark grades of flue-cured, as well as dark Westerns, are allowed to undergo additional aging or curing in the United States.

The prompt movement of supplies into bonded storage in the United Kingdom is desirable for several reasons. It is advantageous for the importer to get the tobacco weighed into bond as soon as possible after redrying and prizing in order that the moisture content may be as near as possible to the minimum of 10 percent permitted for the 9s.6d. duty classification. Otherwise the importer pays duty on the increased weight due to the higher moisture content. Moreover, it is claimed that storage in England tends better to maintain the desirable light or bright color, since the temperature and the moisture changes in England are not frequent or severe.

Figure 4 shows the typical seasonal variations in imports from the several countries. The new crop of United States flue-cured leaf usually begins to arrive in September, reaching a peak during October and November, whereas United States dark types usually arrive from March to July. It will be noted that Indian leaf begins to arrive in March and April, Rhodesian in June, and Nyasaland in July, whereas Canadian is the last to arrive.

Tobacco enters the United Kingdom through seven ports. Liverpool, Bristol, and London together handle about 85 percent of total imports. The following tabulation shows the average percentage handled by each of the seven ports during 1934 and 1935:

Liverpool .....	41	percent
Bristol .....	23	"
London .....	22	"
Manchester .....	5	"
Southampton .....	4	"
Belfast .....	4	"
Glasgow .....	1	"
Total.....	100	"

Bonded stocks held. The 2-year supply of unmanufactured tobacco usually held in bonded warehouses by manufacturers and dealers acts as a buffer, which tends to smooth out the effects of erratic variations in the size, price, and quality of individual crops. To meet the demand for increased consumption, stocks were increased from about 200 million pounds in 1910 to nearly 500 million pounds early in 1937. Toward the end of the war, because of the difficulty of transportation, stocks fell below 150 million pounds but were rapidly built up after the war. Since the quantities of stemmed and unstemmed leaf are not shown separately, the discussion of stocks in this report refers to the total of stemmed and unstemmed leaf without conversion to leaf equivalent.

The most important factors affecting the size of stocks appear to be the anticipated requirements for manufacture and the quantity of suitable leaf available; that is, the size of crops, leaf prices, and the

need for blending tobacco from various crops and sources. During periods of increasing consumption, such as the present, it is necessary to increase stocks by a greater number of pounds than the increase in consumption, if a 2-year supply is to be maintained.

There appears to be a general trend toward smaller stocks in relation to consumption. The ratio of total stocks to consumption following the war rose to a high point of almost 2.6 years' supply in January 1922. See figure 3. During the following 8 years, the January ratios declined almost continually to about 2.25 years' supply in January 1931, although the prices of United States flue-cured leaf were generally declining during this period and manufacturers usually take advantage of the low prices in order to build up their stocks. Following the low leaf prices in 1930, 1931, and 1932, and the decline in consumption during the depression in 1931, the ratio of stocks rose to about 2.4 early in 1932, only to continue the decline to a new January low of 2.1 in 1935. Stocks on September 1, the seasonal low point (see figure 5), dropped to record lows of 1.74 years' supply in 1935 and 1.73 on September 1, 1937. The recent low stocks may be attributed in part to the higher prices and the smaller size of United States crops.

Normal stocks under present conditions appear to average for the year about two and one-tenth times the quantity withdrawn for manufacture during the preceding 12-month period. Upon this basis, seasonal low stocks as of September 1 would be about 2.0 and seasonal high stocks as of January 1 would be about 2.2 years' supply.

Stocks of Empire leaf generally are maintained at a slightly higher level, averaging for the season about 2.3 to 2.4 times annual manufacturing requirements. Nyasaland and Indian stocks have been maintained at a higher level than those of Rhodesian and Canadian, which have been more nearly in line with stocks of United States leaf. The average monthly ratios of stocks during the 5 years 1932 to 1936 were as follows: Rhodesia, 2.10; Canada, 2.15; India, 2.43; Nyasaland, 2.53; total Empire, 2.32; United States, 2.06; and total all countries, 2.12.

Since shipments of United States tobacco begin to arrive in September, stocks of such tobacco usually reach their seasonal low for the year on September 1 and are highest in February immediately following the bulk of imports from the United States. As a group, stocks of Empire leaf, on the other hand, usually reach their seasonal low on July 1 and rise rapidly to a peak on November 1.

#### Source of leaf supply

Largely from United States. Because of unsuitable soil and climatic conditions in the United Kingdom, only a few thousand pounds of leaf are grown domestically and practically the entire supply is imported. The United States has been the chief source of tobacco for England ever since colonial days. The flavor of the American types is particularly desired and, consequently, about 78 percent of the total



United Kingdom manufacturing requirements are obtained from the United States. See table 4. The highest quality and most desirable leaf has always been obtained from the United States. Imports of United States unmanufactured tobacco into the United Kingdom between 1929 and 1936 ranged between 125 million pounds and 214 million pounds, with an annual average for the 8-year period of 181 million pounds.

It is estimated that about 85 to 88 percent of the total flue-cured tobacco used by manufacturers comes from the United States; of that used in cigarettes, it is estimated that between 93 and 95 percent is United States leaf; and of that used in other products, less than 50 percent. Of the dark tobacco, only about one-fourth, or from 6 to 7 million pounds, is now obtained from this country. About 3 million pounds of the tobacco furnished by the United States is Western fire-cured; 1.5 million pounds, Virginia fire-cured; and 1.5 million pounds, Green River.

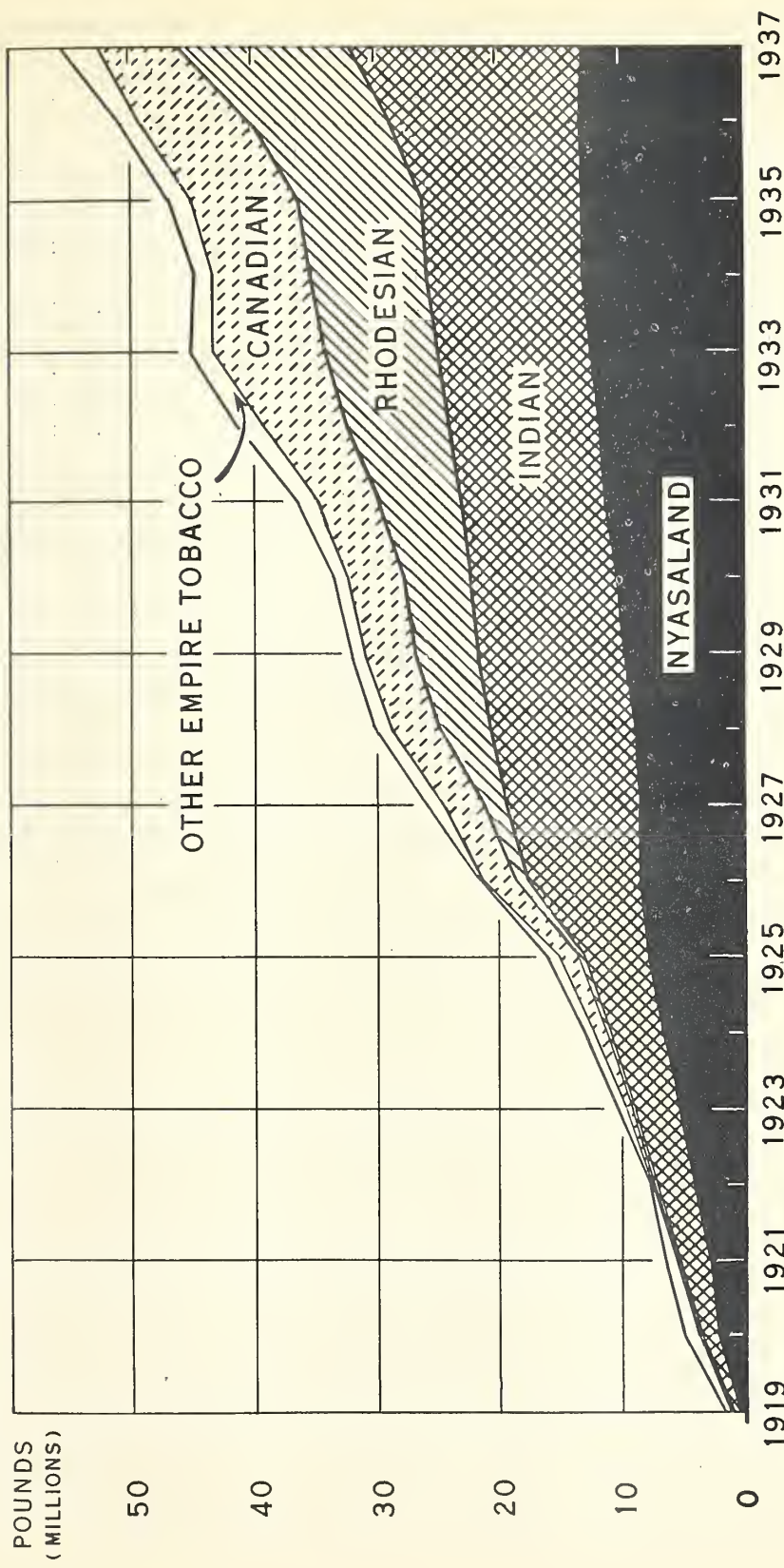
Little from other foreign countries. Prior to the war, approximately 10 million pounds of tobacco were imported from foreign countries other than the United States. Of this amount, about two-thirds was oriental leaf from Turkey and Greece and the remainder was largely cigar leaf imported from the Netherlands and the Netherlands Indies. Largely because of the decline in cigar consumption, imports of cigar leaf declined materially, and the shift toward flue-cured cigarettes resulted in reduced imports of oriental leaf. The preference in duty has probably resulted in some substitution of British North Borneo and Indian cigar tobacco for foreign cigar leaf. Consumption of leaf from other foreign countries now amounts to about 4 million pounds a year and consists largely of East Indian cigar leaf, oriental leaf, and Latakia.

Increasing proportion from Empire countries. From less than 2 million pounds in 1919, imports of Empire leaf increased to about 51 million pounds (unstemmed leaf equivalent), or about 20.9 percent of the total tobacco used by United Kingdom manufacturers in 1936. See table 4. The proportion of Empire tobacco in the quantity actually retained for consumption in the United Kingdom, however, was about 22.2 percent, since practically no Empire leaf is used in manufactured products for export. See figure 6.

Of the flue-cured tobacco, Empire countries supply between 5 and 7 percent of that used in cigarettes and most of that used in other products. Southern Rhodesia furnishes about 40 percent of the Empire flue-cured, India about 28 percent, Canada 22 percent, and Nyasaland, Northern Rhodesia, and the Union of South Africa almost all the remaining 10 percent.

Of the other types, Empire countries supply about 75 percent. Of fire-cured tobacco, Nyasaland is by far the most important source, supplying over 11 million pounds (unstemmed leaf equivalent). India supplies about 7 million pounds, largely of dark air-cured types, and smaller quantities are received from Canada, Northern Rhodesia, and Cyprus. In addition, about 2 million pounds of Burley are imported from Canada, and some cigar leaf comes from British North Borneo.

# CONSUMPTION OF EMPIRE-GROWN TOBACCO (UNSTRIPPED LEAF EQUIVALENT) IN THE UNITED KINGDOM, BY COUNTRIES, 1919-37



U. S. DEPARTMENT OF AGRICULTURE  
 NEG. 32771  
 BUREAU OF AGRICULTURAL ECONOMICS

FIGURE 6



Table 4. Approximate quantities of tobacco used in the United Kingdom in 1936, by type and country of origin (unstemmed leaf equivalent)

Country	: Flue- : cured	: Fire- : cured	: Dark : air- : cured	: Burley	: Other : types : a/	: Total
	: Million : pounds	: Million : pounds	: Million : pounds	: Million : pounds	: Million : pounds	: Million : pounds
Southern Rhodesia.....	11.0	0.5	-	-	0.2	11.7
India.....	8.0	-	7.0	-	-	15.0
Canada.....	6.2	0.4	0.4	2.0	-	9.0
Nyasaland.....	1.8	11.6	-	-	-	13.4
Others.....	1.1	-	0.4	-	0.2	1.7
Total Empire Countries:	28.1	12.5	7.8	2.0	0.4	50.8
United States.....	182.9	4.5	1.5	0.2	0.1	189.2
Other foreign.....	-	0.5	-	-	3.1	3.6
Total.....	211.0	17.5	9.3	2.2	3.6	243.6

a/ Including oriental types from Rhodesia, Greece, and Turkey; cigar leaf from Borneo and Netherlands Indies; and Latakia from Syria and Cyprus.

#### Effect of general government policy

Government policy in the United Kingdom, as in most countries, is one of the most important factors affecting all phases of the tobacco industry, especially the source of leaf supply. Because of the relatively high import duty, the actual cost of the leaf makes up only a small proportion of the final cost to the manufacturer. As a result, manufacturers in the United Kingdom tend to use higher-quality leaf than in countries where the duty is low and leaf costs make up a larger proportion of the total. Furthermore, since the revenue is obtained entirely from the duty levied on the weight of tobacco imported, the heavier tobacco products, such as cigars, bear a relatively greater tax burden than products, such as cigarettes, that weigh less per unit. Regulations prohibiting the addition of any flavoring material to tobacco influence the kinds of leaf used, because certain types, such as Burley, which are well adapted to the use of flavoring materials, cannot be used as advantageously in the United Kingdom as in other countries. Finally, the most important aspect to growers in the United States is the preference or reduction in duty accorded to imports from Empire countries, which results in the use of Empire leaf wherever practical.

An examination of the Government policy with respect to the tobacco industry in the United Kingdom, therefore, is particularly important because of its far-reaching effects upon the source of the leaf supply. Generally, the Government's policy may be summarized under three headings. (1) The paramount objective is to obtain revenue and to safeguard and maintain its flow. (2) Regulation to insure fair play within the industry is of less importance. (3) The declared policy to increase the use of Empire-grown leaf is second in importance only to the revenue aspect.

The earliest Government policy was directed against the use of tobacco on the ground that smoking constituted a danger to the health of the people, as well as a fire hazard and an economic waste. This early policy of prohibition was exemplified by James I in his famous "Counter-blasts to tobacco" in 1604. According to early accounts, the anti-tobacco policy did not check the consumption of tobacco in England, and it "soared to undreamed of heights."

Revenue from tobacco is large. Since the reign of Queen Elizabeth, who imposed a duty of 2d. per pound on imports, and James I, who raised it to 6s.10d. in 1603, 2/ tobacco has provided a lucrative source of Government revenue and, consequently, the trade has been carefully regulated. Tobacco was recognized as a kind of Government milch cow, the fiscal flow of which was to be encouraged, according to one British author. 3/ In order to insure that the import duty would be collected on the full quantity consumed, the cultivation of tobacco was prohibited in England in 1620.

The revenue from tobacco is now the largest single item in the customs collection, constituting about 38 percent of the total, and equals about 10 percent of the total revenue of the United Kingdom, including the income tax. See table 5. In 1935-36 the import duty on tobacco yielded revenue amounting to about £75,000,000 a year. This amounts to about £1.6 or approximately \$3.00 per capita. In the United States, the revenue from tobacco during the same year, even with a materially higher rate of consumption, amounted to only about \$4.00 per capita, including excise taxes and import duties.

Table 5. Customs collections in the United Kingdom,  
1925-26 and 1935-36

Item	1925-26	1935-36
	Million pounds sterling	Million pounds sterling
Tobacco.....	53.5	75.0
Hydrocarbon oils.....	-	45.1
Wine, beer, and spirits..	17.8	14.5
Sugar.....	18.4	9.2
Tea.....	5.8	4.1
Other items.....	7.8	49.2
Total.....	103.3	197.1

Tobacco revenue in the United Kingdom is obtained from three sources, in addition to income taxes, (1) from duties on imported tobacco, (2) from excise taxes on the manufacture of domestically grown leaf, and (3) from license fees for manufacturers, dealers, and growers. Since the quantity of home-grown tobacco is very small (3,667 pounds in 1935-36), the excise tax is of no importance as a source of revenue.

2/ Reduced to 1s.2d. in 1608, as the preceding rate was more than the commodity could bear.

3/ Arthur E. Tanner, "Tobacco from the grower to the smoker."

Licenses are used primarily as a means of regulating the industry rather than as a source of revenue. During the fiscal year 1935-36, the revenue from excise taxes amounted to £1,304, from manufacturers' licenses £3,019, and from retailers' licenses £138,117.

The import duty is the chief source of tobacco revenue. The duty on unmanufactured tobacco is based solely on the weight of the tobacco and on its moisture content, irrespective of type, condition, or use. Consequently, the duty falls on manufactured products in proportion to the weight of the leaf used in each product. Cigars and cut tobacco therefore bear a much higher rate of tax relative to cigarettes and are relatively higher priced than in the United States, where excise tax rates are adjusted according to the nature of the products.

The present full duty of 9s.6d. per pound on unstemmed leaf (with moisture content of 10 percent or more) is equivalent to about \$2.35 at the current rate of exchange. Assuming that the average full-sized cigarettes weigh about 2.75 pounds per 1,000, the duty would be equal to about \$6.44, or 13 cents per package of 20, as compared with an excise tax of \$3 per 1,000, or 6 cents per package, in the United States. For small cigarettes weighing 2.1 pounds per 1,000, the British duty would be \$4.91. Similarly, for cigars weighing 17 pounds per 1,000, the duty would be about \$39.75, or about 4 cents each.

Duties on tobacco have been assessed in England for well over 300 years. Sometimes they have been high and sometimes low. Since 1900 the tendency has been toward continually increased duties. From 3s.0d. per pound on unstripped leaf in 1900, the duty was increased by 8d. in 1909. In order to obtain increased revenue during the war, three successive increases were made, bringing the duty to 8s.2d. per pound in 1913. The full duty remained at that rate for 9 years. It was increased by 8d. in 1927 and by another 8d. in 1931 to 9s.6d., the present rate. The changes of 8d. are convenient, since this amount represents 0.5d. per ounce, the most common unit for retail sale of pipe tobacco. See table 6.

Although tobacco consumption does not appear to have declined during the periods immediately following increases in tobacco duty, there is evidence to show that the quality of tobacco products tended to be lowered. Moreover, the cost to the consumer was increased either directly through an increase in price of the product or through a reduction in the size of the package or in the size of units included in the package.

On stemmed tobacco, the duty rate is only 0.5d. per pound higher than the rate on unstemmed leaf, but provision is made for a refund of the full rate of duty on the weight of stems (midribs) and offal that are reexported, destroyed, or denatured in accordance with Government specifications. Thus the duty is actually paid only on the weight of material used in manufacturing, which in most cases is the weight of



striped leaves. A similar refund of duty, or drawback, is made for leaf tobacco reexported and for manufactured products exported or used as ships' stores.

Regulation insures maintenance of revenue and fair play. Regulatory measures have been directed primarily at safeguarding the Government revenue and secondarily at insuring the quality of the product to the consumer and at maintaining fair practices among manufacturers and dealers. Even from the earliest times, efforts at tax evasion necessitated strict Government measures in order to prevent declines in revenue. Smuggling by small vessels along unguarded parts of the coast in order to avoid paying the duty was not unusual. During the eighteenth century another method of evading the import duty was the common use of adulterating materials in products. Cabbage leaves, tree leaves, bog moss, sawdust, starch, lime, earth, chemicals, sugar, honey, and water were said to have been used in relatively large quantities. Through such practices, the Government sometimes lost as much as one-third of the annual tobacco revenues.

As a result, three important measures were enacted. (1) Pure Tobacco Acts to prevent adulteration were passed under Walpole about 1733 and again under Sir Robert Peel in 1842, with strict provisions that no foreign material may be added to tobacco products except essential oils and water, and olive oil in the case of twist and roll. (2) In 1783 William Pitt placed all stocks and manufacturing operations under the control of the Excise. (3) The patrol of the coast to prevent smuggling was strengthened in 1856 by placing it under the British Navy.

The maximum amount of moisture permitted in tobacco products is also regulated and has been changed from time to time but is now fixed at 32 percent. In this connection it is important to note that, since the import duty is paid on the weight of tobacco containing moisture equal to 10 percent or more, it is to the advantage of importers to receive the leaf with a moisture content as close as possible to the 10-percent minimum. The percentage usually varies between 11 and 12 percent, as compared with a moisture content of from 12 to 15 percent on the Continent. Although tobacco containing less than 10 percent moisture may be imported, it is impracticable and uneconomical because the duty rate on such tobacco is 1 shilling per pound higher. Since the maximum moisture content of manufactured products is 32 percent, it is apparent that manufacturers can obtain considerable increase in weight, depending upon the nature of the product.

More recently, a Government chemical laboratory has been established to make frequent analyses of tobacco products as a basis for enforcing these regulations. As a result of the stringent "adulteration" regulations, the importation of many United States products, including standard brands of cigarettes, is absolutely prohibited because of their flavoring content, however small the quantity. United States products destined for the British market therefore have to be prepared under special formulae.

In the United Kingdom, flavoring material, largely sweetening, may be added only in manufacture in bond, in warehouses under strict Customs supervision. Some Cavendish and Negrohead is made in this manner. Cavendish <sup>4/</sup> was named after the Admiral in Queen Elizabeth's time who first introduced sweetened tobacco, and is usually pressed into flat cakes, whereas Negrohead is twisted.

Tariff preference on Empire-grown leaf. The third phase of Government policy, namely, the encouragement of the consumption of Empire-grown leaf through preferential duty treatment, is by far the most important to tobacco growers in the United States. Before and during the war, the United Kingdom obtained about 90 percent of its leaf from the United States and most of the remainder from other foreign countries. At that time, British Empire countries supplied only from 1 to 2 percent of the total consumption. At the close of the war, several Empire countries had increased their shipments, but the consumption in the United Kingdom continued to be negligible.

After the war, the Government policy to encourage Empire tobacco production was pushed for several reasons. (1) It appeared desirable to build up a source of raw material within the Empire, rather than to rely upon a supply from foreign sources. (2) Increased trade between Empire countries was looked upon as the surest way of strengthening the feeling of Empire unity. (3) With the development of the colonies and Dominions and with their increased populations it was necessary to find products that could be successfully produced for export. Tobacco appeared to be just such a crop. (4) Furthermore, the development of the colonies involved the purchase of considerable quantities of industrial products and equipment, particularly from the United Kingdom, with the result that it was necessary to find markets for increased quantities of goods produced in the colonies in order to balance trade and pay for the industrial products and the interest on credit.

Encouraged by the moderate success from increased tobacco exports, the colonies were successful in obtaining on September 1, 1919, a preferential rate of import duty on Empire-grown tobacco. See table 6. The duty reduction or preference amounted to one-sixth of the full rate on foreign leaf. As a result, imports of Empire leaf increased rapidly, and growers began to feel that the preference immediately assured them a large share of the United Kingdom market. Manufacturers, however, experienced difficulty in using the Empire leaf, which was produced largely by inexperienced growers and was of a quality not suitable for the English market. Consumption increased slowly to about 10 percent of the total in 1925.

On July 1, 1925, the amount of preference was increased to one-fourth the full rate of duty. This preference has amounted to 2s.0.5d. since then, although there have been two subsequent 8d. increases in the duty. Preference is now equal to 21.5 percent of the full rate. The Ottawa Agreements in 1932 stabilized the rate of preference at 2s.0.5d. for a period of 10 years.

<sup>4/</sup> Arthur E. Tanner, op. cit.



Table 6. United Kingdom import duty per pound on unstemmed leaf,  
1909 to date  
(containing 10 percent or more moisture)

Date effective	Full duty		Amount of preference		Percentage of preference
	Shillings	Pence	Shillings	Pence	
Prior to					
April 30, 1909.....	3	0	-	-	-
April 30, 1909.....	3	8	-	-	-
September 22, 1915..	5	6	-	-	-
May 3, 1917.....	7	4	-	-	-
July 16, 1917.....	6	5	-	-	-
April 23, 1918.....	8	2	-	-	-
September 1, 1919...	8	2	1	4-1/3	16.7
July 1, 1925.....	8	2	2	0.5	25.0
April 12, 1927.....	8	10	2	0.5	23.1
September 11, 1931.:a/	9	6	b/ 2	0.5	21.5

a/ Equal to \$2.35 at current exchange.

b/ Equal to 50.6 cents at current exchange.

#### Effect of preferential tariff policy

It is difficult to determine exactly to what extent the increase in Empire tobacco has been due to the preferential duty, but the evidence indicates that the preference certainly has been by far the most important factor. Even before the preference was introduced, Empire countries had slightly increased their shipments to the United Kingdom. Furthermore, industrial development in the colonies had the effect of encouraging tobacco production and exports.

Production of Empire leaf increased: It is significant that, immediately after the introduction of the preference and again after the preference was raised, plantings in Empire countries were materially increased.

Table 7. Effect of the preferential rate of duty on tobacco  
production in Southern Rhodesia, Nyasaland, and Canada,  
1917-1936

Period	Southern Rhodesia		Nyasaland		Canada
	Million pounds		Million pounds		Million pounds
Average 1917-1918.....	1		3		14
Year of 1920 (following introduction of preference in 1919).....	4		7		48
Average 1920-1924.....	3		6		25
Year of 1926 (following increase in preference in 1925).....	19		18		29
Average 1926-1930.....	13		15		34
Average 1932-1936.....	20		15		46

After each preference increase, growers in Empire countries were inclined to expand their plantings more rapidly than manufacturers in the United Kingdom could absorb their production. Increases in consumption, of course, were delayed because of the necessity of aging the leaf from 2 to 3 years before using it and also because changes in blends had to be made gradually. In Canada the increased production may be attributed largely to the increased domestic consumption, but in Rhodesia and Nyasaland it was undoubtedly due to the preference. A similar comparison for India would be of little value since practically all of the crop is used domestically.

The preference, in effect, reduces the cost of Empire leaf to manufacturers by 2s.0.5d. (about 50 cents) per pound, which in most cases is far more than (nearly twice) the value of the leaf itself. For leaf of comparable quality from Empire sources, manufacturers should be willing to pay 50 cents more than for American leaf. It may be assumed that, if the quality of Empire leaf were comparable with that of United States leaf, manufacturers would prefer to use it exclusively.

Quality and suitability of the leaf for the British market has been the most important factor limiting the use of Empire leaf. Greater difficulty has been experienced in using Empire flue-cured leaf in cigarettes than in using flue-cured and the dark types in pipe mixtures. Much time, money, and energy have been devoted to improving the quality of Empire leaf. Large British manufacturers for a number of years have assisted the colonial governments in carrying out research and educational projects, and their efforts have had some success. Seed from the United States has been used, and extensive breeding experiments have been conducted in order to adapt varieties to local conditions. Fertilizer experiments have also helped.

Consumption of Empire leaf increased. The consumption of Empire leaf rose in 5 years from less than 2 million pounds annually, before the preference was introduced in 1919, to about 12 million in 1924. After the preference increase in 1925, consumption increased more than 400 percent to about 51 million pounds (unstemmed leaf equivalent) in 1936 and is estimated at about 56 million in 1937. See figure 6. Empire leaf has displaced foreign leaf both from the United States and from other countries, but the greatest displacement has been in United States leaf. Before the preference was introduced, other foreign countries supplied about 10 million pounds annually, most of which was of oriental and cigar types. The use for these types has declined sharply since 1919, and it may be assumed that the consumption of other foreign leaf would have declined, or at least not increased materially, even in the absence of the preference.

In demonstrating the effect of the preference upon the consumption of Empire leaf in the United Kingdom, it is well to reiterate comparisons with the situations in the Irish Free State and with the manufacture of products for export from the United Kingdom. With a similarly high duty and similar taste and consumption habits, but without duty preference on Empire leaf, manufacturers in the Irish Free State use United States leaf almost exclusively. United States leaf is

also used almost exclusively in the manufacture of products for export from the United Kingdom because the entire duty is refunded on exported products and any advantage thus removed from lower duty on Empire leaf.

Each year from 1919 to 1933, the proportion of Empire leaf in the total consumption continued to increase. In 1934 and 1935, however, the proportion declined slightly, in part because of the discontinuance of the use of coupons for premiums. Until 1934, it was the practice of several manufacturers in the United Kingdom to provide such coupons with cigarettes. The prevalence of this practice and the resulting objectionable forms of competition led to efforts to obtain legislation prohibiting the use of coupons. When these failed, the principal manufacturers themselves agreed to discontinue the use of coupons, effective December 31, 1933. In effect, this action turned some smokers away from the lower-quality cigarettes, many of which contained Empire leaf and depended largely upon the premiums to stimulate sales. During the past 2 years, several new brands of cheap (4-penny) full-sized cigarettes, produced largely from Empire leaf, have been introduced, with the result that the proportion of Empire leaf is again increasing.

It is probable that the preferential duty has had some other, long-time effects that would not be altogether removed even though the preference were discontinued. Some smokers, especially the younger ones who because of the lower price have turned to Empire products, may be developing a taste for Empire tobacco and thereby a definite preference for it.

The effect of the preference is greater in years of industrial depression. In prosperous years, consumers tend to smoke not only more cigarettes but also higher-priced cigarettes. Inversely, during depression years consumption declines, and there is a tendency toward the use of cheaper products containing larger proportions of Empire leaf. Other things being equal, the proportion of Empire leaf may be expected to increase during an industrial depression.

Leaf prices and the size of the United States crops also affect the consumption of Empire leaf. Although the actual price of the leaf constitutes but a small part of the cost to the manufacturer, it is interesting to note that production in Empire countries tended to increase following years of small, high-priced crops in the United States. When large manufacturers find themselves unable to obtain sufficient supplies at what they consider satisfactory prices, they look for other sources of supply. Furthermore, new brands of cigarettes containing Empire tobacco are reported to have been most frequently introduced following years of high-priced United States crops.

#### Production in Empire countries

Most of the tobacco produced in the British Empire, especially such native tobacco as that produced in India, is not of a type suitable for the British market and is not directly competitive with United States leaf. The Empire leaf which is imported into the United Kingdom, however, is largely of types competitive with United States leaf. The



following is a brief discussion of tobacco production in the four principal Empire countries, which supply over 95 percent of the Empire leaf shipped to the United Kingdom. See table 4.

### Nyasaland

Nyasaland is said to be the first Empire country to export tobacco to England, a small quantity having been shipped in 1892. It now supplies about 40 percent of the dark tobacco requirements of the United Kingdom, or nearly twice as much as does the United States. Consumption of Nyasaland dark tobacco in the United Kingdom has increased every year since 1918, while consumption of United States dark tobacco has decreased continuously.

Table 8. Production and United Kingdom imports and consumption of Nyasaland tobacco, 1920-1937

Year harvested	Production	United Kingdom	
	a/	Imports b/	Consumption b/
	Million pounds	Million pounds	Million pounds
1920.....	3.8	5.6	2.2
1921.....	6.7	4.9	2.9
1922.....	6.5	7.2	4.0
1923.....	4.6	6.9	5.3
1924.....	8.5	7.9	6.9
1925.....	8.0	7.9	8.0
1926.....	11.0	9.5	8.6
1927.....	18.3	14.6	8.6
1928.....	14.5	13.6	8.9
1929.....	13.8	11.5	9.8
1930.....	16.0	13.6	10.4
1931.....	12.1	11.8	11.2
1932.....	19.5	16.3	11.7
1933.....	12.6	11.2	12.5
1934.....	15.2	13.7	13.1
1935.....	12.6	10.9	13.2
1936.....	16.0	14.3	13.4
1937 c/.....	15.0	13.7	13.0

Production and import data computed from Government reports; consumption data from reports by Frank Watson and Company.

a/ Farm sales weight. b/ Redried weight; unstemmed leaf equivalent, 1 pound strips equivalent to 1.24 pounds unstemmed leaf. c/ Estimated.

Originally the production of Nyasaland was primarily flue-cured, as much as 7 million pounds having been grown by European planters with native labor in 1926. With the expansion of flue-cured production in Southern Rhodesia, which produced a more desirable type of leaf for the British market, demand for the Nyasaland flue-cured type declined. As a result, native growers and some European planters took up the production of fire-cured tobacco on a relatively large scale. During the past 5 years, total production of all types has varied from 13 to 19 million pounds annually, of which approximately 2 million pounds have been



flue-cured and most of the remainder fire-cured. See table 8. The 1937 crop is estimated at nearly 15 million pounds, of which 11.3 million pounds are fire-cured and about 3 million pounds flue-cured.

Plants are usually set out in December, harvested from April to June, and marketed from the latter part of April to July. The first shipments reach England in June, and the peak of imports is usually reached in August. Leaf exports are almost entirely to the United Kingdom. During the past 5 years they have varied between 10 and 15 million pounds, of which from 1 to 2 million pounds have been flue-cured. Tobacco exports play an important part in Nyasaland trade, having made up 50 percent of the total value of all exports during the 6 years 1930-1935. Domestic consumption, except by natives, is very small.

Nyasaland already dominates the United Kingdom fire-cured tobacco market. Over 80 percent of British pipe tobacco is made from Empire leaf, and there is little prospect for a material increase in pipe tobacco consumption; it would therefore appear that further expansion in the fire-cured production of Nyasaland will be slow unless new foreign markets can be opened up. Production costs are low. Approximately one-half of the cost (exclusive of duty) of Nyasaland leaf delivered in England is made up of heavy charges for buying, sorting, redrying, prizing, and transportation. Even with these charges, the price of Nyasaland fire-cured tobacco on the British market has been lower than that of dark tobacco from the United States. Renewed attention has been given recently to expanding and improving the quality of the flue-cured production.

#### British India

British India is now the most important source of Empire tobacco in the United Kingdom. Consumption of Indian tobacco in the United Kingdom increased more rapidly in 1936 than that of any other kind, amounting to 18 percent more than in 1935. See table 9. On the basis of unstemmed leaf equivalent, it now makes up 30 percent of the total consumption of Empire leaf. About one-half of the Indian tobacco used in the United Kingdom is light or flue-cured and characterized by its neutral flavor, light body, and rapid burn. As such it is adapted for use in limited quantities as a filler in cigarette blends. The dark types, on the other hand, are air-cured and mostly very strong-flavored, dark, and heavy-bodied, suitable only for use in the darker pipe-tobacco products and to a very limited extent in the Burma cheroots and cigars.

With the exception of slight recessions in 1929 and 1930, the consumption of Indian leaf in the United Kingdom has increased every year since the war, from one-half million pounds in 1913 to 15 million in 1936 and, sharply, to an estimated 19 million for 1937. When the preference on Empire-grown leaf was established in 1919, consumption increased from about 0.5 to 1.3 million pounds in 1920 and to 2.6 in 1921. Again when the preference increased in 1925, consumption immediately increased from 4.2 million pounds in 1924 to 8.9 in 1926. From 1928 to 1935, the increase in consumption was very slow, because of the lack of suitable flue-cured leaf.

Table 9. United Kingdom imports and consumption of Indian tobacco,  
1920-1937

(Unstemmed leaf equivalent - 1 pound strips equivalent to  
1.25 pounds unstemmed leaf)

Year	Imports	Consumption	Year	Imports	Consumption
	Million	Million		Million	Million
	pounds	pounds		pounds	pounds
1920.....	9.6	1.3	1929.....	11.7	11.6
1921.....	1.6	2.6	1930.....	16.9	11.6
1922.....	4.2	3.3	1931.....	12.1	11.7
1923.....	5.2	3.7	1932.....	11.9	12.1
1924.....	10.3	4.2	1933.....	16.9	12.3
1925.....	9.6	5.3	1934.....	12.1	12.5
1926.....	15.2	8.9	1935.....	14.5	12.8
1927.....	10.9	10.9	1936.....	17.9	15.1
1928.....	13.2	11.8	1937 <u>a/</u> .....	24.5	19.0

Import data computed from Government reports; consumption data from reports by Frank Watson and Company. a/ Estimated.

India produces over a billion pounds of leaf tobacco annually and ranks as one of the three largest tobacco-producing countries in the world. Nearly all the crop is used domestically, however; only about 20 or 30 million pounds (from 2 to 3 percent of the total crop) is exported. Plants are usually set out in December and January and harvesting takes place from March to May. About 84 percent of the crop is reported to be of a dark coarse, native, air-cured type, and the remainder largely of dark cigar and cheroot types. Flue-cured production, which has been steadily increasing, is estimated to make up less than 3 percent of the total, or less than 30 million pounds.

Total exports from India during the decade ended in 1936 varied from 20 to 30 million pounds annually. Of this amount the United Kingdom has taken about half, or from 10 to 17 million pounds (unstemmed leaf equivalent) and the remainder has been exported largely to neighboring states and to Japan. Shipments from India begin to arrive in England in April, and the peak of imports occurs in July.

Indian leaf as a whole has always been the cheapest leaf on the British market, the dark leaf being cheaper than the light. From 1930 to 1936, the c.i.f. price of Indian tobacco in England averaged about 8d. per pound, compared with an average price of all Empire tobacco of about 1s.0d. per pound.

For some time the Indian Government and large British manufacturing concerns have been conducting experiments extending the production and improving the quality of Indian flue-cured tobacco. Labor costs, which figure so prominently in the production of tobacco, are low in India, thus permitting production to expand even at low leaf prices. The consumption of the better grades with neutral flavor and light color suitable for use in English cigarettes is expected to

increase. The increasing domestic cigarette consumption and the shift toward lighter tobacco products will probably also require increasing quantities of light tobacco for the Indian home market.

### Southern Rhodesia

Southern Rhodesia supplies about 23 percent of the total United Kingdom consumption of Empire tobacco and about 40 percent of the Empire flue-cured. During the past 2 years alone (ended August 1, 1937) the consumption of Rhodesian tobacco in the United Kingdom has increased nearly 33 percent. The leaf possesses a characteristic flavor or aroma which distinguishes it from American flue-cured tobacco and makes it less desirable for use. This is especially true in products such as cigarettes, which are not blended with stronger-flavored dark types. Increased quantities, nevertheless, have recently been used in cigarettes.

Most of the crop is exported, very little being required for domestic manufacture to supply the small population. Since 1932, from 12 to 21 million pounds have been exported annually, about 75 to 80 percent of which has gone to the United Kingdom. See table 10. The Union of South Africa takes between 2 and 3.5 million pounds annually under duty-free quota, and from 1 to 3 million pounds have been exported to other countries (especially Belgium).

Table 10. Southern Rhodesian exports of leaf tobacco,  
by countries of destination, 1931-1936  
(Redried weight, not converted)

Year	United Kingdom	Union of South Africa	Other countries	Total
	: Million pounds	: Million pounds	: Million pounds	: Million pounds
1931.....	5.2	2.3	0.3	7.8
1932.....	10.2	2.4	0.7	13.3
1933.....	9.9	2.1	0.1	12.1
1934.....	16.4	2.5	2.3	21.2
1935.....	14.4	2.2	1.3	17.9
1936.....	13.6	2.1	2.8	18.5

Over 90 percent of the production in Southern Rhodesia is flue-cured. During the past two seasons, about 20 million pounds of flue-cured leaf, 1 million pounds of fire-cured, and roughly three-fourths of a million pounds of oriental type have been grown annually. Production began to assume commercial importance just prior to the World War. With the establishment of a preferential import duty on Empire leaf in 1919, leaf prices rose and production temporarily increased sharply. When the amount of preference was increased in 1925, prices of Rhodesian leaf rose again and production was trebled to nearly 25 million pounds in 1927-28. See table 11.

Plants are usually set out during November and December and harvested from the end of February to May. Most of the crop is sold from



the middle of April to August and immediately prepared for export. The first shipments arrive in England as early as the latter part of May, but the peak of imports from Southern Rhodesia is usually in August. Production is generally with native labor and on a large scale, the average tobacco acreage per planter being about 38 acres.

Table 11. Production and United Kingdom imports and consumption of Southern Rhodesian tobacco, 1920-1937

Year harvested	Production a/ Million pounds	United Kingdom	
		Imports b/ Million pounds	Consumption b/ Million pounds
1920.....	7.51	0.16	0.04
1921.....	9.53	0.17	0.02
1922.....	10.17	0.36	0.15
1923.....	9.05	0.37	0.15
1924.....	8.00	0.73	0.31
1925.....	8.44	1.04	0.48
1926.....	5.66	2.32	1.16
1927.....	19.26	9.25	1.73
1928.....	24.94	10.54	4.16
1929.....	7.04	4.11	5.01
1930.....	5.84	3.70	5.68
1931.....	8.64	6.02	6.36
1932.....	15.37	10.69	7.99
1933.....	14.17	10.34	8.80
1934.....	26.79	16.26	9.53
1935.....	21.21	15.52	10.27
1936.....	22.40	15.37	11.68
1937 c/.....	21.40	16.50	14.00

Production and import data computed from Government reports; consumption data from reports by Frank Watson and Company.

a/ Farm sales weight. b/ Redried weight; unstemmed leaf equivalent, 1 pound of strips equivalent to 1.22 pounds unstemmed leaf. c/ Estimated.

Imports from Southern Rhodesia increased from less than 2 million pounds before 1925 to 10 million in 1928, but consumption increased less rapidly. Stocks accumulated and prices dropped, with the result that production in each of the following 3 years was reduced to between 6 and 8 million pounds. Under the preference, consumption of Rhodesian leaf continued to increase, especially in pipe products. Surplus stocks were worked off, and production was resumed at a higher level with a record crop of nearly 27 million pounds in the 1933-34 season.

Government assistance has been used in several ways to regulate the production, marketing, exports, and price of Rhodesian tobacco. One of the most interesting measures was the Tobacco Marketing Act of 1936, which provides that (1) all growers must be registered and limit their production and sales to specified quotas; (2) all tobacco except that consigned direct for export by the grower must be sold over licensed auction warehouse floors and only to licensed buyers; (3) exporters must be



licensed and obtain permits to export and only tobacco sold under the producers' sales quotas may be used for the protected markets, that is, for manufacture in Southern Rhodesia or export to the United Kingdom or the Union of South Africa; (4) tobacco not sold by the grower under the Act may be taken over by the Government or destroyed.

After operating under this act during the 1935-36 season, it was decided to retain the auction system of marketing but to abandon the producers' sales quotas. As a result, the Tobacco Act was amended early in 1937 and a new scheme made applicable to the marketing of the 1936-37 crop. A measure of price control was substituted for quantity control. Essentially this scheme provides minimum prices for the three protected markets. In order to be eligible for a certificate of origin for export to the United Kingdom or to the Union of South Africa, tobacco must sell on the auction markets for at least 2.5d. per pound. For use by domestic manufacturers, it must bring at least 4.5d. per pound. All tobacco which sells for less than these prices may be used only for export to other countries, that is, unprotected markets. The sale of any tobacco whatsoever for less than 1d. per pound is prohibited.

Growers hoped that this would increase the price of the 80 or 90 percent of their crop that is used in the protected markets, while at the same time permitting the cheapest grades to be sold on other markets. Auction prices for the 1936-37 crop, the first to be marketed under this scheme, were increased 43 percent over the preceding crop, but much of this increase was due to improved demand for exports to the United Kingdom and it is difficult to determine the extent to which the minimum-price provisions contributed to the increased prices.

Government assistance is also directed toward improving varieties, fertilizers, and handling methods. Moreover, quantities of tobacco have been purchased and shipped by the Government into new markets in an effort to introduce Rhodesian leaf.

The consumption of Rhodesian tobacco in the United Kingdom has increased every year since 1923, when it was only about 150,000 pounds as compared with nearly 12,000,000 pounds in 1936, and consumption has continued to increase sharply in 1937. This increase has taken place primarily in products other than cigarettes. Although Rhodesian leaf has for some time been used in numerous brands of cigarettes, such consumption has been limited because the characteristic flavor has not found favor generally with British cigarette smokers. Should the flavor be improved or the British taste change sufficiently, consumption of this tobacco in cigarettes might increase materially.

So far as land is concerned, production in Rhodesia can be expanded. There are large areas similar to those now being used for tobacco production. One limiting factor is the competition for native labor on the part of the mining industry.

#### Canada

By many, Canadian flue-cured leaf is considered the highest in quality of any tobacco produced in the Empire. Tobacco production in

Canada has been important for a long time. The census of 1891 shows a production of over 4 million pounds. After the war, production increased erratically and has varied between 39 and 55 million pounds since 1930.

Table 12. Canadian production and imports of tobacco, and United Kingdom imports and consumption of Canadian leaf, 1920-1937

Year	Canada		United Kingdom	
	Production a/	Imports b/	Imports c/	Consumption c/
	Million pounds	Million pounds	Million pounds	Million pounds
1920.....	48.1	21.1	0.2	0.1
1921.....	13.2	19.9	0.2	0.1
1922.....	26.0	14.4	0.9	0.3
1923.....	21.3	14.0	1.0	0.5
1924.....	18.7	18.0	2.0	1.1
1925.....	29.3	14.8	2.1	1.7
1926.....	28.8	16.1	5.3	3.1
1927.....	43.9	18.7	6.3	3.6
1928.....	42.0	17.9	6.3	4.0
1929.....	29.9	17.7	5.2	4.5
1930.....	36.7	17.4	4.2	4.6
1931.....	51.3	14.3	6.5	5.1
1932.....	54.1	10.3	10.9	7.1
1933.....	44.9	9.5	14.5	9.3
1934.....	38.7	8.6	8.2	8.0
1935.....	54.5	6.5	7.3	8.7
1936.....	46.1	3.3	9.7	9.0
1937 d/.....	60.0	3.1	8.8	8.4

Production and import data from Government reports; consumption data from reports by Frank Watson and Company.

a/ Farm sales weight. b/ Redried weight. c/ Redried weight; unstemmed leaf equivalent, 1 pound strips equivalent to 1.24 pounds unstemmed leaf. d/ Estimated.

Many types of tobacco are grown in Canada. From 1920 to 1930 Burley, grown largely in Quebec, made up from one-fourth to one-half of total production, but during the past 5 years Burley production has declined to about one-fifth of the total, varying from 3 to 16 million pounds annually. At the same time, flue-cured production in Ontario increased from about 4 million pounds in 1926 to 35 million pounds in 1935, making up from 50 to 65 percent of the total. Indications point to a materially increased 1937 flue-cured crop, estimated at nearly 45 million pounds. The production of dark tobacco, including fire-cured, dark air-cured, and special pipe tobaccos, during recent years has varied from 3 to 6 million pounds. From 2 to 5 million pounds of cigar leaf are produced.

Domestic consumption requires about 40 million pounds of leaf annually. Immediately after the war, two-thirds of this was flue-cured leaf imported from the United States and one-third was domestic leaf,

but now less than 15 percent is imported and more than 85 percent is domestic. In other words, domestic consumption of home-grown leaf has increased faster than production, and during the past 3 years the quantities of flue-cured leaf available for export have decreased.

Exports in commercial quantities began in 1920. In 1923, exports amounted to 1.5 million pounds and steadily increased to a peak of nearly 14 million pounds in 1933, varying from 8 to 14 million pounds during the period 1932 to 1936. The United Kingdom has always been the principal buyer, taking from 90 to 99 percent of the total leaf exports. With the exception of about 2 million pounds of Burley and 0.6 million of dark tobacco, exports are almost entirely flue-cured.

Farm prices of flue-cured tobacco, except in 1934, have been consistently above prices in the United States. The price spread has narrowed, however, during the past 5 years, and Canadian flue-cured prices have averaged about 16 percent above those of the United States. Prices for Canadian Burley, on the other hand, during the past 7 years have been consistently and materially lower than United States prices. This difference, together with the preferential duty, probably accounts for the fact that practically all United Kingdom requirements of Burley tobacco, about 2 million pounds, are obtained from Canada.

The most important limiting factors in the expansion of Canadian production are uncertain weather conditions and scarcity of additional areas of suitable land. Now that domestic consumption is largely supplied by home-grown leaf and flue-cured prices are more nearly in line with those in the United States, however, it is possible that exports to the United Kingdom may increase.

#### Other Empire countries

Tobacco is grown in many other Empire countries, but the total quantity that such countries supply to the United Kingdom amounts to only 1 or 2 million pounds altogether, or about 3 percent of the total supplied by all Empire countries. Northern Rhodesia, British North Borneo, Cyprus, the Union of South Africa, and Uganda are the most important exporters, each supplying between 0.1 and 0.7 million pounds. From the standpoint of total production, the Union of South Africa, Ceylon, Australia, the Malay States, and New Zealand are the most important.

The Union of South Africa produces approximately 20 million pounds annually, but practically the entire production, plus an additional 2 million pounds of imports, are required for domestic consumption. Most of the production is of air-cured types, but increasing quantities of flue-cured are being grown, and about 1 million pounds of Turkish tobacco is produced. Most of the imports have been flue-cured tobacco from Southern Rhodesia under duty-free quota.

Australia produces an average crop of about 4 million pounds, with production varying between 3 and 10 million. The entire production,



in addition to about 20 million pounds of United States flue-cured, is required for domestic consumption. Australia also imports considerable quantities of manufactured products.

New Zealand produces nearly 2 million pounds, over half of which is flue-cured, and imports about 2 million pounds in addition, almost entirely flue-cured, from the United States. Exports have been tried only twice in order to maintain prices when the crop was larger than local requirements.

In Northern Rhodesia tobacco has been produced for 25 years, but the production has never been large, varying from 1 to 3 million pounds annually. Most of the crop is heavy-bodied flue-cured, but some dark sun-cured is also grown. During recent years the United Kingdom has imported about 0.5 million pounds annually, of which 95 percent has been flue-cured. The consumption of Northern Rhodesia tobacco in the United Kingdom has decreased over a period of years. The producing area near Fort Jameson is located at considerable distance from the port at Limbe in Nyasaland. Road transportation charges at one time amounted to 4.5d. per pound, but with improved facilities, still largely by road, this amount is now sufficient to pay all charges of packing and transportation to England.

The British Malay States produce from 3 to 5 million pounds for domestic consumption and import approximately as much more.

British North Borneo produces between one-third and one-half million pounds, largely of the cigar-tobacco types. Consumption of North Borneo leaf in the United Kingdom is decreasing.

Cyprus produces about 0.5 million pounds of oriental-type and Latakia and is the only source of Latakia within the Empire.

Uganda, Tanganyika, and Mauritius each produce between 0.5 and 1 million pounds and because of the limited consumption by the small white population are able to export small quantities to the United Kingdom.

#### The Irish Free State

The tobacco market in the Irish Free State is much the same as that in the United Kingdom. The most interesting differences are the high proportion of American tobacco used and the efforts made to increase domestic tobacco production. The most significant difference is the absence of the preferential duty rate on leaf imported from Empire countries. Although a part of the British Isles, the Irish Free State is a separate political entity and imposes its own tobacco laws, regulations, and import duties, many of which are different from those in the United Kingdom.

The Irish Free State is of special interest to our growers because United States leaf probably makes up a larger proportion of the

total consumption than it does in any other country in the world (including the United States). The total leaf requirements now are over 10 million pounds annually (unstemmed leaf equivalent), of which 97 percent is obtained from the United States and most of the remaining 3 percent is of domestic growth. Although the import duty is 10s.Od. (about \$2.<sup>47</sup>) per pound, or about 5 percent higher than in the United Kingdom, there is no preferential duty on Empire-grown leaf.

A comparison of the extent to which United States tobacco is used in the two countries is particularly significant, since the preference in duty is the only important difference. Similar tastes for tobacco products, demand for similar types of tobacco, similar organization of the manufacturing industry, a similarly high import duty, and the absence of an excise tax prevail in both countries. Furthermore, the two countries were under the same Government until a few years after the preference was introduced in the United Kingdom in 1919. See table 15. It would seem reasonable to conclude by analogy that the extent to which Empire tobacco is now being used in the United Kingdom is due almost entirely to the duty preference.

### Consumption

In 1936 about 9.5 million pounds of tobacco products were manufactured, nearly 60 percent in the form of cigarettes and nearly 40 percent in twist, roll, plug, and smoking mixtures. Consumption of snuff amounted to less than 2 percent and of cigars, less than 0.5 percent. See table 13. Cigar consumption, as in the United Kingdom, is very small, principally because the high duty calculated on the weight of leaf results in almost prohibitively high cigar prices.

Table 13. Quantities of tobacco products manufactured in the Irish Free State, 1926, 1931-1936

Year	Cigarettes	Pipe products a/	Snuff	Cigars
	Million pounds	Million pounds	Million pounds	Million pounds
1926.....	3.36	4.77	0.28	0.004
1931.....	4.58	4.42	0.26	0.005
1932.....	4.53	3.81	0.25	0.005
1933.....	4.86	3.71	0.23	0.005
1934.....	5.00	3.70	0.23	0.005
1935.....	5.20	3.58	0.21	0.004
1936.....	5.62	3.65	0.20	0.005

Irish Trade Journal.

a/ Including smoking mixtures, shag, flake, plug, twist, and roll.

During the depression years, consumption remained nearly constant at about the 1929 level, but with improved industrial conditions and increased purchasing power in 1936 consumption increased about 6 percent over 1935. The increase in cigarettes was most pronounced; pipe products increased slightly, but snuff consumption continued to decline.

The imports and exports of manufactured products are quite unimportant. During the 4 years 1932 to 1935, imports of products averaged about 35 thousand pounds annually, largely cigarettes and pipe tobaccos and almost entirely from the United Kingdom. Exports of products varied from 4 to 13 thousand pounds annually.

Cigarettes manufactured in the Free State are of the English type, that is, entirely of flue-cured tobacco. The "hard" products (roll, twist, plug, and flake) and the smoking mixtures contain, on the whole, nearly two-thirds flue-cured tobacco of the darker grades and about one-third dark types, including Western fire-cured, Virginia fire-cured, and Green River. In addition, a small quantity of Latakia is used for flavoring. Snuff, primarily dry snuff, is manufactured exclusively from stems, approximately one-third from dark and two-thirds from light (flue-cured).

#### Source of supply

With the exception of the domestic leaf and a small quantity of Latakia, practically the entire supply is obtained from the United States. See table 14. Of the 10 million pounds of leaf required annually for manufacture in the Free State, about 8.25 million pounds are estimated to be United States flue-cured, 1.5 million pounds United States dark types, and 0.25 million pounds domestic leaf.

Table 14. Irish Free State net supply of unmanufactured tobacco, 1928-1936

Year	Imports a/	Preceding domestic crop	Exports (excluding stems)	Net remaining	Withdrawn from bond for manufacture
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
1928.....	8.9	0	0.1	8.8	9.1
1929.....	9.9	0	0.1	9.8	8.7
1930.....	13.2	0	0.1	13.1	9.5
1931.....	11.9	0	0.1	11.8	9.6
1932.....	7.7	0	0.6	7.1	9.2
1933.....	5.8	b/	0.1	5.7	9.3
1934.....	19.8	0.8	0.4	20.2	9.4
1935.....	11.5	0.7	0.4	11.8	9.5
1936.....	15.7	0.5	0.1	16.1	10.0

Unstemmed leaf equivalent - 1 pound strips equivalent to 1.225 pounds unstemmed leaf.

a/ About 12 percent of imports since 1932 were stemmed.

b/ About 5,000 pounds.

Until 1934 about half of the imports were reshipped from England and Northern Ireland, where the leaf was held in storage until required



for manufacture in the Free State. As a result of this large reshipment, the United States export data do not indicate clearly our supply to the Free State.

As a result of large transfers from the United Kingdom during 1934 and even during 1935 and 1936, stocks in the Free State have now been built up to between 20 and 22 million pounds, which may be considered approximately normal, being a ratio of from two to two and two-tenths times the annual manufacturing requirements.

In keeping with the general policy of industrial development, as well as to safeguard the revenue from tobacco, a law was passed in June 1934 requiring all tobacco to be reweighed upon entering the country. Formerly the weights of hogsheads, certified at the time of entry into the United Kingdom, had been accepted. Under the new law, Irish manufacturers importing tobacco that has been held in storage in the United Kingdom must pay duty on a greater number of pounds than formerly because of the increase in weight resulting from additional moisture absorbed during storage. This law, therefore, has had several important results. Manufacturers transferred large stocks from the United Kingdom to the Free State before the law became effective. As a result, imports in 1934 rose to 19.8 million pounds. The construction of additional storage space in the Free State became necessary, and direct shipment from the United States increased.

The largest single manufacturing company, accounting for nearly three-fourths of the total production, maintains its own leaf purchasing organization in the United States. Other large manufacturers purchase direct on order through American dealers and obtain additional smaller quantities from leaf dealers in Ireland and England.

#### Government policy

The policy of the Government with respect to the tobacco industry may be summarized by saying that protection of the revenue is the primary consideration. At the present rate of import duty the revenue from tobacco amounts to nearly 24,500,000 annually. Second to that is the declared policy of developing home tobacco industries, including production of domestic leaf, manufacturing, and storage.

Import duties. Prior to 1932, the Free State had few well-developed manufacturing industries. With a change in Government, tariffs were increased in that year in order to develop domestic manufacturing industries, relieve unemployment, and provide greater revenue. The import duty on tobacco, which had been 8s.2d. since 1918, was raised to 9s.4d. Through the Finance Act of 1932, a rebate of 7d. per pound on the consumption of imported unmanufactured tobacco was allowed local tobacco manufacturing companies controlled by Irish-born residents. Although reduced to 3.5d. per pound in May 1934, this rebate still continues in effect. Nevertheless, it is estimated that the branch factories of the principal manufacturer (not eligible for rebate) produce approximately three-fourths of the total output.

Table 15. Irish Free State import duty on unstemmed leaf,  
1918 to date  
(Containing 10 percent or more moisture)

Date effective	Full duty			Empire preference	
	Shillings	Pence		Shillings	Pence
United Kingdom a/					
April 23, 1918.....	8	2	:	0	0
September 1, 1919.....	8	2	:	1	4-1/3
Irish Free State					
March 21, 1923.....	8	2	:	0	0
May 12, 1932.....	9	4	:	0	0
May 15, 1935.....	10	0	:	0	0

a/ Prior to March 21, 1923, duty rates in Ireland were the same as those in the United Kingdom. See table 6.

Another instance of Government assistance to Irish manufacturers is the recent quota imposed on imports of manufactured products. When the preferential rate of duty on imported Empire-grown leaf was abolished, manufacturers in England obtained a price advantage because they could continue to use Empire leaf with a 2s.0.5d. preference and could export pipe tobaccos to the Free State at a slightly lower price than that at which similar products could be produced there. As a result, Irish manufacturers were faced with increased competition from English manufactured products. To remedy this situation, a law was passed in April 1937, applying quotas to the importation of manufactured products, each trader being limited to the quantity imported during the period September 13, 1934, to September 12, 1935, and no licenses were granted to new importers.

Domestic production subsidized. Tobacco has been grown in Ireland at irregular intervals and in varying quantities for more than 100 years. The revenue obtained from duty on imported tobacco was of such importance that the Government not only discouraged domestic production, but at times definitely prohibited it.

During the past 30 years, however, repeated efforts have been made to encourage production through subsidies to growers. During most of that period, domestic leaf was subject to an excise tax approximately equal to the import duty. From 1904 to 1907, the Government refunded one-third of the excise tax to tobacco growers. In 1908, this was changed to a subsidy of £50 per acre; in 1914, it was reduced to £25 per acre. From 1919 to 1923, the domestic crop suffered from the importation of Empire-grown tobacco at a preferential rate 1s.4d. less than full duty, so that by 1923 the area was reduced to 20 acres. After the establishment of the Irish Free State, the preference on imported Empire-grown tobacco was discontinued but, in the absence of a subsidy, domestic production from 1925 to 1931 almost completely disappeared.

When concerted efforts were made in 1932 to make the country more nearly self-sufficient and to find a profitable cash crop for

farmers, the excise tax of 8s.6d. per pound on home-grown tobacco was removed (August 1932). As a result, prices of domestic leaf soared to great heights because it was tax free, while imported leaf was subject to the duty of 10s.0d. per pound. About 1,500 growers planted 1,000 acres of tobacco in 1933. Because of the loss of revenue on so large a quantity of tobacco, an excise tax nearly equal to the import duty was reimposed on the 1934 crop. Another objection to the removal of the excise tax was that most of the benefits did not go to producers; to a large extent, leaf dealers and consumers profited by it.

A new effort to encourage domestic production was made through the Tobacco Act of September 1934. It is still in effect and provides for Government price fixing of domestic leaf and regulation of production by licensing growers and of marketing through inspection, grading, and re-handling. Government appraisers establish the value of domestic leaf at prices equal to comparable grades of imported leaf. For the 1934 crop the average appraised price was 4.72d. per pound and for the 1935 crop, 5.38d. Manufacturers receive a refund of excise tax amounting to 10d. per pound on domestic leaf. Five pence of this goes to the redryers to cover the cost of rehandling, and an average of 5d., varying with quality, is added to the appraised value and goes to the grower. Thus growers are assured of a Government-regulated price, plus a bonus of 5d. per pound, resulting in average prices for the crops of 1934 and 1935 of 9.72d. and 10.38d. per pound, respectively.

Encouraged by the relatively high prices, growers planted over 1,000 acres again in 1934 and 817 acres in 1935; but excessive stocks of domestic leaf began to accumulate, as manufacturers experienced difficulty in using the domestic leaf at prices so nearly the same as those of imported leaf. A further regulation was issued requiring all manufacturers to use specified quotas of domestic leaf and prohibiting its exportation. This requirement works a particular hardship on cigarette manufacturers, since the domestic leaf is too dark, coarse, and strong for use in the English type of light flue-cured cigarettes. Several types of domestic tobacco are produced, but most of the Belgian type of uneven, dark color and strong flavor, more suitable for use in limited quantities in blends of the darker pipe products. The following quantities of domestic leaf were used in the several products during the year ended July 5, 1934:

Cigars.....	684 pounds.
Snuff.....	15,865 "
Pipe mixtures.....	18,438 "
Hard pressed.....	234,720 "

As a result of disappointment in the incomes obtained from tobacco, the number of growers declined from 1,500 in 1934 to less than half that number in 1936 and 1937. The area was reduced to 571 acres in 1936.

The following is an excerpt from a statement which recently appeared in the "Irish Times":

"On certain soils in favourable seasons tobacco of good quality has been produced, but experience has proved that it is



not a crop for the average farmer. Where labour for the various field operations has to be paid for, the cost of production becomes too heavy to leave a profit. Somewhat better returns may be expected where growers have the unpaid assistance of growing children, for whom much of the work is suitable, but it is not a crop which can be relied upon to return a steady income. Some farmers who were enthusiastic about it in 1933, therefore, have given it up. Last season, owing to lack of sunshine and excessive rainfall, the crop proved most unsatisfactory. \* \* \* "

The Government is continuing the policy of encouraging domestic tobacco production and is experimenting with new and improved varieties and fertilizers in an effort to improve the quality and to produce a lighter color. It appears doubtful, however, whether the domestic crop will be materially increased above a quarter or a half million pounds unless the Government is willing to subsidize it further or to forego the income from the excise tax and import duty.

#### Outlook

Consumption of tobacco in the British Isles, especially of cigarettes, is expected to continue to increase, with temporary recessions in the event of industrial depression, but the rate of increase may be somewhat slower. Much of the expansion since the war has been due to increased cigarette smoking by women. Consumption of other products, such as pipe tobacco, chewing tobacco, cigars, and snuff, for which dark types are largely used, is not expected to increase materially in the near future.

If the present high tariff preference on imports of Empire-grown leaf is continued in the United Kingdom, there is likely to be a greater increase in the use of Empire leaf than in the use of United States leaf - in other words, a gradual encroachment on the market for United States leaf. The tariff preference, amounting to nearly twice the value of the leaf itself, is a powerful economic force for the use of Empire leaf. Empire leaf has already largely replaced United States dark types and most of the flue-cured leaf in pipe mixtures. Any further material increase in the proportion of Empire leaf will probably be through its use in cigarettes and will depend principally upon improvements in quality of Empire leaf.

United States growers should seek (a) to maintain the superior quality of American leaf and (b) to maintain production large enough to permit British manufacturers to obtain sufficient quantities of the desired grades.

In the absence of adverse Government measures in the future, exports to the Irish Free State of United States tobacco, particularly flue-cured, may be expected to continue a gradual increase proportionate to the increase in total consumption.